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Ratings

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Wellington International Airport Ltd.

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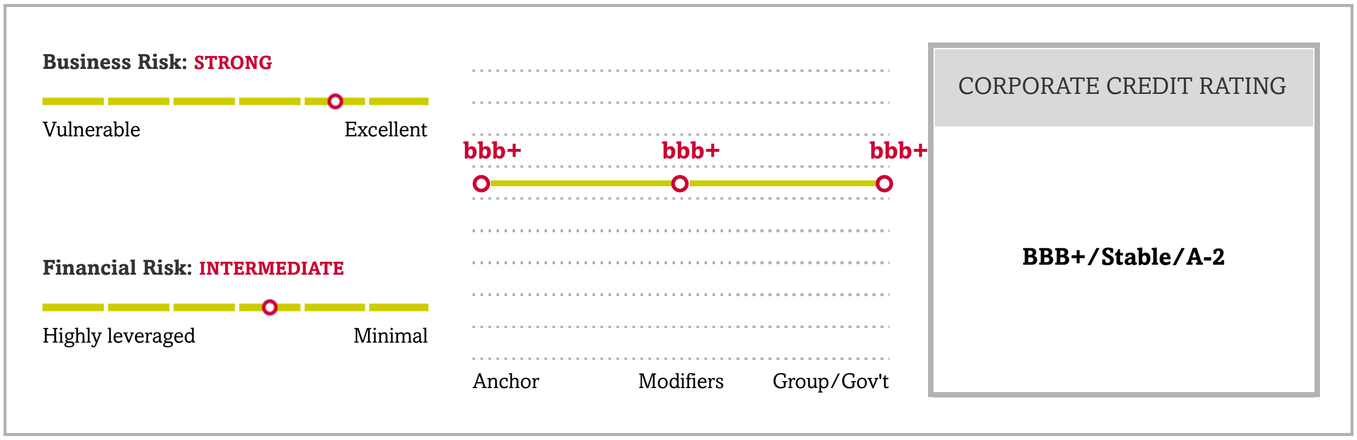

Rationale

Business Risk: Strong	Financial Risk: Intermediate
• Stable passenger base serving New Zealand's capital city and second largest urban area • Limited revenue diversity compared with peers due to its relatively small landholding • Potential for direct long-haul flights through the runway extension	• Step-up in capital investment leading to declining metrics in the near term • Our expectation of the airport's proactive management of debt refinancing

Outlook: Stable

The stable outlook on Wellington International Airport Ltd. (WIAL) reflects our view that the airport's overall passenger growth will remain broadly in line with recent trends, at about 2% for domestic traffic over the next 12-18 months. We expect a step-up in WIAL's capital investment over the next couple of years and corresponding weaker financial metrics. Despite this potential pressure, the outlook reflects our view that the company will, if required, actively manage its balance sheet in order to maintain its key financial metrics of funds from operations (FFO) to debt and FFO interest coverage at or above 13% and 3.5x respectively, over the next two years.

Downside scenario

The rating could be at risk if we were to expect FFO to debt to sustainably fall to less than 13%. This scenario would most likely occur because of continued high capital investment combined with earnings pressure resulting from weak traffic growth.

Upside scenario

Given the step-up in capital investment over the near term, we view a higher rating as unlikely. In any event, a rating uplift could occur if the ratio of FFO to debt were to remain at more than 18%, and we believe the company would be willing to support such a level.

Our Base-Case Scenario

Assumptions

- Domestic passenger growth remaining around 1.5%-2% per year and total passenger growth around 2%-3%;
- Operating expenditure growing at about 2%-3% per year on average;
- Capital expenditure averaging between NZ$60 million-NZ$90 million for each of the next two years; and
- Dividends remaining broadly constant at about NZ$35 million per year.

Key Metrics

Year end March 31	2016A	2017E	2018E
EBITDA margin (%)	76.5	75-77	76-78
FFO/debt (%)	17.4%	14-16	13-15
FFO interest coverage (x)	4.4	3.7-4.0	3.7-4.0

A–Actual. E–Estimate. FFO—Funds from operations.

Company Description

Wellington International Airport Ltd. owns and operates Wellington Airport, the third largest airport in New Zealand. The airport benefits from its location servicing New Zealand's capital city and received about 5.8 million passengers in the fiscal year ended March 31, 2016. The airport is 34% owned by Wellington City Council and the remainder by NZ Airports Ltd., a wholly owned subsidiary of Infratil Ltd., a New Zealand-based infrastructure fund.

Business Risk: Strong

The rating on Wellington International Airport reflects our view of the airport's strong position as the gateway to the country's second-largest urban area and home of the central government and a number of large corporations in New Zealand's capital city. Passenger growth was relatively stable over recent years, and we expect this to remain the case for the foreseeable future.

Further supporting this stability is the large portion of business-related or VFR (visiting friends and family) traffic, with limited exposure to international tourism. We forecast international passenger numbers will grow by around 5% over the next two years, albeit from a relatively low base. The airport is likely to grow its international traffic based on recent new route offerings, including a new Singapore Airlines route from Wellington to Asia via Canberra and new short-haul international routes to Australia and Fiji. We continue to expect longer-term international traffic growth to lag behind peers in the region as a result of its location, limited runway length, and more limited tourist traffic. That said, the higher proportion of VFR traffic reduces downside risk in our view.

Somewhat weakening WIAL's strong business position is the airport's lack of revenue diversity compared with regional peers', and some operational constraints. Given its very small land bank, WIAL's property portfolio is very limited with few tangible new investment opportunities. However, the company is constructing a new multilevel carpark and plans to commence construction of a hotel in early 2017. By way of comparison, an airport like Auckland has invested heavily in recent years in commercial and industrial buildings to respond to demand, which has boosted revenue in that segment.

We also view the runway as somewhat constraining the airport's operations, because it is of insufficient length to accommodate direct long-haul traffic taking off at full load. WIAL has submitted a resource consent to extend the runway. This consent is currently subject to an environmental court hearing, which is likely to be heard in early 2017.

WIAL has completed its business case for the runway, and subject to obtaining the necessary consents, it would require further external funding from either local or central government in order to proceed with the runway extension. However, it would rely on the additional airport revenue that the extension would generate to cover its share of the construction costs.

We note that WIAL did not suffer any material impact from the recent earthquake in the South Island of New Zealand.

Our Base-Case Operating Scenario

- Domestic passenger growth of about 1%-3% over the next two years, broadly in line with New Zealand's real GDP growth;
- International passenger growth of 5% in fiscal 2017, supported by new routes; and
- Capital expenditure of up to NZ$180 million over the next two years, reflecting WIAL's commercial and property investment plans.

Peer comparison

We consider Wellington International Airport's closest peers to be other rated airports in Australia, including Perth, Brisbane, and Adelaide airports, and Christchurch International Airport Ltd. and Auckland Airport in New Zealand. All airports except Auckland have similar business risk profiles to Wellington. Brisbane Airport--the third largest airport in Australia—is slightly larger, but faces similar levels of competition.

Meanwhile, Perth continues to be exposed to a weaker Western Australian economy. Auckland Airport has a stronger business risk profile because it is the main international gateway to New Zealand. The Australian airports also benefit from a light-handed regulatory regime that enables the Australian airports to independently set tariffs in agreement with the airlines. The main New Zealand airports may set airline prices in accordance with the Airline Authorities Act and must also disclose their performance under an information disclosure regime.

Christchurch International Airport continues to perform strongly on the back of the attractiveness of the region to Asian travelers, along with Auckland International Airport. However, due to its dominant competitive position, Auckland continues to capture a growing share of the international market in comparison to Christchurch and Wellington, despite its already large size and coverage of the largest populated area. Wellington International Airport has a stronger financial profile than the three Australian peers and Auckland International Airport, reflecting the former's less leveraged capital structure than peers. The rating on Christchurch Airport also reflects the potential for extraordinary support from its 75% shareholder, Christchurch City Holdings Ltd.

Table 1

Wellington International Airport Ltd. -- Peer Comparison

Industry Sector: Airport

	Wellington International Airport Ltd.	**Perth Airport Pty Ltd.**	**Christchurch International Airport Ltd.**	**Brisbane Airport Corp. Pty Ltd.**	**Auckland International Airport Ltd.**
	--Fiscal year ended March 31, 2016--	--Fiscal year ended June 30, 2016--	--Fiscal year ended June 30, 2016--	--Fiscal year ended June 30, 2016--	--Fiscal year ended June 30, 2016--
(Mil. NZ$)					
Revenues	113.5	512.0	169.9	672.3	572.2
EBITDA	86.8	328.5	101.3	496.5	445.8
Funds from operations (FFO)	51.5	192.1	67.2	288.6	284.5
Net income from cont. oper.	12.5	107.1	43.1	175.1	262.4
Cash flow from operations	85.3	148.3	49.5	306.5	280.8
Capital expenditures	55.4	185.8	59.9	200.5	228.1
Free operating cash flow	29.9	(37.5)	(10.4)	106.0	52.7
Discretionary cash flow	(8.2)	(135.7)	(39.7)	61.1	(135.4)
Cash and short-term investments	5.9	30.0	0.8	33.4	52.6
Debt	296.1	2,109.3	323.3	2,619.4	1,702.6
Equity	506.6	900.3	791.2	1,842.0	3,880.7

Table 1

Wellington International Airport Ltd. -- Peer Comparison (cont.)					
Industry Sector: Airport					
	Wellington International Airport Ltd.	**Perth Airport Pty Ltd.**	**Christchurch International Airport Ltd.**	**Brisbane Airport Corp. Pty Ltd.**	**Auckland International Airport Ltd.**
Adjusted ratios					
EBITDA margin (%)	76.5	64.2	59.6	73.8	77.9
Return on capital (%)	8.4	7.7	5.5	7.7	7.9
EBITDA interest coverage (x)	4.4	3.1	5.0	3.0	5.3
FFO cash int. cov. (X)	4.4	2.5	4.4	2.8	4.3
Debt/EBITDA (x)	3.4	6.4	3.2	5.3	3.8
FFO/debt (%)	17.4	9.1	20.8	11.0	16.7
Cash flow from operations/debt (%)	28.8	7.0	15.3	11.7	16.5
Free operating cash flow/debt (%)	10.1	(1.8)	(3.2)	4.0	3.1
Discretionary cash flow/debt (%)	(2.8)	(6.4)	(12.3)	2.3	(8.0)

Financial Risk: Intermediate

Our assessment of WIAL's financial risk profile reflects our view that the company's key financial metric of FFO-to-debt will remain above 13% over the near term. We expect metrics to decline toward 13% over the next two years as a result of the construction of a new multi-storey car park and terminal hotel. In total, we expect capital expenditure at the airport to increase to a maximum of NZ$90 million over the next two years. From fiscal 2019, we expect capital expenditure to reduce significantly toward the longer term average of around NZ$20 million-NZ$30 million per year.

Over this period, we expect revenues and EBITDA to grow at around 5% to 6%, driven by a combination of agreed tariffs. We expect a modest increase in EBITDA in fiscal 2019 due to revenues related to the new hotel and car park.

We forecast a declining credit metrics profile in fiscal 2017 and 2018 due to relatively high capital expenditure, compared with previous years. Offsetting this to some extent is the airport's relatively strong international traffic growth. Once the hotel and car park works are completed, we expect metrics to recover to above 14% in fiscal 2019.

WIAL has historically underspent its capital expenditure compared with forecasts. Any delays to the completion of the new hotel and multi-storey car part would lead to stronger metrics over the next two years but may also delay the additional revenues generated by the projects. Therefore, it would have a neutral overall impact on the rating.

We note that the next airline tariff reset is scheduled for 2019 (fiscal 2020). At the current level of interest rates, this would likely reduce revenues slightly. However, we have not factored this into our base case given that the reset is due several years away.

Our forecast also does not include the potential expenditure linked to the runway extension that WIAL is currently progressing.

Our Base-Case Cash Flow And Capital Structure Scenario

- Adjusted debt peaking at NZ$435 million over the next two years;
- Debt to EBITDA increasing to around 4.0x–4.5x; and
- Distributions of around NZ$35 million.

Financial summary

Table 2

Wellington International Airport Ltd. -- Financial Summary

Industry Sector: Airport

	--Fiscal year ended Mar. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
(Mil. NZ$)					
Revenues	113.5	108.3	110.9	106.2	99.5
EBITDA	86.8	82.9	87.0	84.4	76.3
Funds from operations (FFO)	51.5	50.4	52.0	50.8	44.2
Net income from continuing operations	12.5	9.7	23.5	16.2	3.8
Cash flow from operations	85.3	81.8	79.8	48.9	44.4
Capital expenditures	55.4	21.6	19.8	12.5	22.3
Free operating cash flow	29.9	60.2	60.0	36.4	22.0
Discretionary cash flow	(8.2)	25.0	28.2	10.5	(45.4)
Cash and short-term investments	5.9	22.3	28.9	5.7	2.7
Debt	296.1	263.3	258.7	251.4	261.1
Equity	506.6	438.1	440.3	427.7	408.2
Adjusted ratios					
EBITDA margin (%)	76.5	76.5	78.4	79.4	76.7
Return on capital (%)	8.4	8.4	9.2	8.9	8.3
EBITDA interest coverage (x)	4.4	4.3	4.2	4.2	3.8
FFO cash int. cov. (x)	4.4	3.9	3.5	3.6	3.3
Debt/EBITDA (x)	3.4	3.2	3.0	3.0	3.4
FFO/debt (%)	17.4	19.1	20.1	20.2	16.9
Cash flow from operations/debt (%)	28.8	31.1	30.9	19.4	17.0
Free operating cash flow/debt (%)	10.1	22.9	23.2	14.5	8.4
Discretionary cash flow/debt (%)	(2.8)	9.5	10.9	4.2	(17.4)

N.M. - Not Meaningful.

Liquidity: Adequate

The short-term rating on WIAL is 'A-2', which reflects the company's long-term corporate credit rating and our adequate liquidity assessment. As of Sept. 30, 2016, we expect WIAL's sources of liquidity (including forecast FFO, cash balances, and undrawn bank facilities) to exceed estimated uses by 1.2x over the next 12 months, and liquidity sources to remain above estimated uses, even if WIAL's EBITDA were to drop by at least 15%.

In our view, WIAL has a strong relationship with its banking syndicate and a prudent risk-management framework. The next maturity is a NZ$90 million wholesale bond that matures in August 2017. We consider the airport's debt maturities on a six-month basis in calculating the liquidity uses.

WIAL's debt facilities are subject to covenants, which include in particular maintaining its EBITDA interest coverage above 1.8x and ratio of debt to EBITDA below 6x. We forecast that the company will continue to maintain significant headroom against those levels.

Principal Liquidity Sources	Principal Liquidity Uses
• Undrawn line of credit and cash and cash equivalents of about NZ$100 million; and • Cash FFO of about NZ$65 million over the next 12 months.	• Capital expenditure of about NZ$70 million over the next 12 months; and • Dividend payment of about NZ$35 million over the next 12 months.

Debt maturities

	Debt (mil. NZ$)
Within 1 year	90
2 years	70
3 years	55
4 years	25
5 years	75
Thereafter	135

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Reconciliation

Table 3

Reconciliation Of Wellington International Airport Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. NZ$)

	--Fiscal year ended Mar. 31, 2016--						
Wellington International Airport Ltd. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**
Reported	295.1	46.5	31.9	17.1	46.5	30.9	13.0
Standard & Poor's adjustments							
Interest expense (reported)	--	--	--	--	(17.1)	--	--
Interest income (reported)	--	--	--	--	0.3	--	--
Current tax expense (reported)	--	--	--	--	(1.6)	--	--
Operating leases	4.6	0.8	0.3	0.3	0.5	0.5	--
Surplus cash	(4.4)	--	--	--	--	--	--
Capitalized interest	--	--	--	2.2	(2.2)	--	--
Non-operating income (expense)	--	--	0.3	--	--	--	--
Debt - Unamortised capitalized borrowing costs	0.9	--	--	--	--	--	--
EBITDA - Other	--	39.5	39.5	--	39.5	--	--
FFO - Other	--	--	--	--	(14.4)	--	--
OCF - Taxes	--	--	--	--	--	14.4	--
OCF - Other	--	--	--	--	--	39.5	--
Dividends - Other	--	--	--	--	--	--	25.1
Total adjustments	1.0	40.3	40.2	2.5	5.0	54.4	25.1

Table 3

Reconciliation Of Wellington International Airport Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. NZ$) (cont.)

Standard & Poor's adjusted amounts

	Debt	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid
Adjusted	296.1	86.8	72.1	19.7	51.5	85.3	38.1

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 1, 2016)

Wellington International Airport Ltd.	
Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2

Ratings Detail (As Of December 1, 2016) (cont.)	
Senior Unsecured	AA/Stable
Senior Unsecured	BBB+
Corporate Credit Ratings History	
13-May-2014	BBB+/Stable/A-2
27-Aug-2012	BBB+/Positive/A-2
17-Dec-2006	BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.