

Wellington International Airport Ltd.

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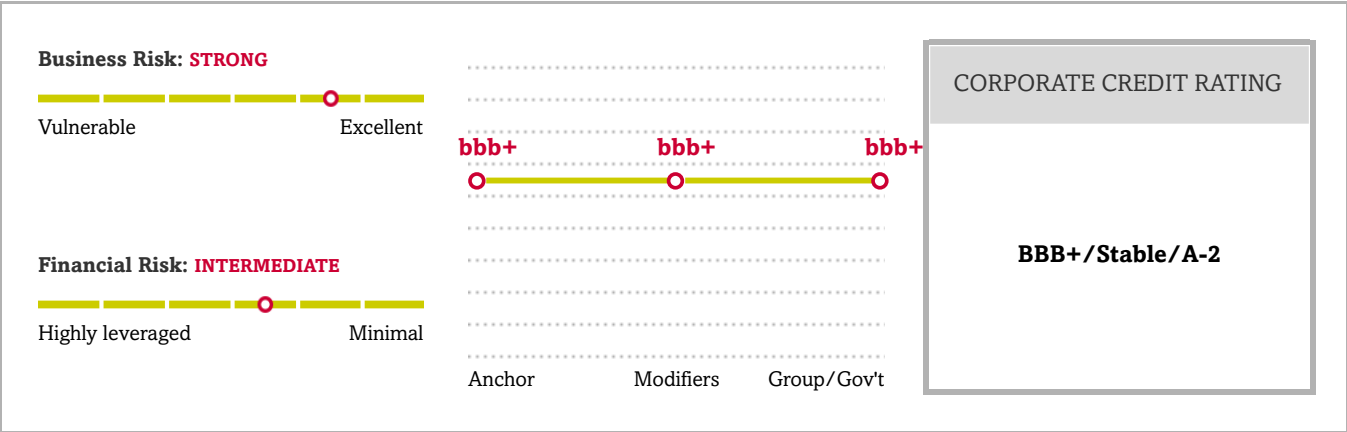
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Wellington International Airport Ltd.



Rationale

Business Risk: Strong	Financial Risk: Intermediate
<ul style="list-style-type: none"> Stable passenger base serving New Zealand's capital city and second-largest urban area Lower revenue diversity compared with peers due to its relatively small landholding Potential for direct long-haul flights through runway extension project 	<ul style="list-style-type: none"> Stable operating metrics generating steady FFO Debt funding for ongoing commercial and property investment reducing FFO to debt to around 13% Uncertainty regarding the capital requirement and timing of runway development

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 to 18 months and flat international traffic growth as recent increases are consolidated.

The outlook also 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. This expectation is despite the recent step-up in WIAL's capital investment weakening its financial metrics amid moderate passenger traffic in the year ending March 31, 2018.

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 next 12 months, 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	Key Metrics																
<ul style="list-style-type: none">• International passenger count likely to remain relatively flat over the next two years and domestic traffic to grow by about 2% over the next 12 months, broadly in line with New Zealand's GDP growth.• EBITDA margin to remain in the 76%-78% range.• Ongoing commercial and property investments to drive capital expenditure higher to about NZ\$90 million in fiscal 2018 and about NZ\$50 million in fiscal 2019. Thereafter, spending to be around NZ\$30 million.• Distributions, including subvention payments, to average at about NZ\$40 million annually over the next two to three years.	<table><tr><th>Year end March 31</th><th>2017A</th><th>2018E</th><th>2019E</th></tr><tr><td>EBITDA margin (%)</td><td>75.9</td><td>76-78</td><td>76-78</td></tr><tr><td>FFO to debt (%)</td><td>14.5</td><td>13-15</td><td>13-15</td></tr><tr><td>FFO interest coverage (x)</td><td>3.5</td><td>3.8-4.2</td><td>3.8-4.2</td></tr></table> <p>A—Actual. E—Estimate. FFO—Funds from operations.</p>	Year end March 31	2017A	2018E	2019E	EBITDA margin (%)	75.9	76-78	76-78	FFO to debt (%)	14.5	13-15	13-15	FFO interest coverage (x)	3.5	3.8-4.2	3.8-4.2
Year end March 31	2017A	2018E	2019E														
EBITDA margin (%)	75.9	76-78	76-78														
FFO to debt (%)	14.5	13-15	13-15														
FFO interest coverage (x)	3.5	3.8-4.2	3.8-4.2														

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 6 million passengers in the fiscal year ended March 31, 2017. 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 airport has a strong position as the gateway to the country's second-largest urban area. Wellington is also the seat of the central government and headquarters for large corporations in New Zealand's capital city.

Given WIAL's location, we expect the airport's more stable passenger growth trends compared with other New Zealand airports to continue for the foreseeable future. Supporting this stability is the large portion of business-related or VFR (visiting friends and family) traffic, with lower exposure to international tourism. On the other hand, Wellington has not benefitted from the strong growth in international traffic to the same extent that some of its peers have experienced as a result of the relatively low proportion of international traffic.

Somewhat weakening WIAL's strong business position is the airport's lower revenue diversity compared with regional peers', and some operational constraints. WIAL's property investment opportunities are limited by its relatively small land bank. That said, it is constructing a new multilevel car park due to be completed in mid-2018 and a new four-star 134-room hotel complex by the end of 2018. These investments will slightly improve its property revenues. By way of comparison, airports like Auckland and Christchurch have invested heavily in recent years in commercial and industrial buildings to respond to demand, which has boosted their revenues in that segment.

Furthermore, WIAL is dependent on domestic traffic, which comprises about 85% of the airport's passenger numbers. International traffic is limited on the airport mainly due to runway constraints, which limit international routes to connections via Australia or the South Pacific.

However, international demand has increased during the first half of fiscal 2018. This increase is on the back of the newly introduced Wellington-Singapore route, demand from Fiji and from Jetstar Airways' service to the Gold Coast. As a result, international traffic rose by 4.4% compared with the same period last year. Given the low international traffic base, new routes can boost growth by solid percentage rates followed by periods of flat growth if no new routes are added, such as what occurred in fiscal 2017.

Still, we continue to expect long-term international traffic growth in the low single digits over the next few years because of the smaller runway length. We therefore continue to expect longer-term international traffic growth on the airport to lag behind peers' in the region unless the runway extension is completed.

WIAL has submitted a resource consent to extend the runway. This consent is currently subject to an environmental court hearing, and the required length of the runway and end safety areas for the proposed extension are being appealed in the Supreme Court. Based on WIAL's business case for the runway, and subject to obtaining the necessary

consents, WIAL will require additional external funding, such as from the local and/or central government, in order to proceed with the runway extension. At this stage, we do not make any provision for the runway extension in our base case.

Peer comparison

We consider WIAL'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.

Perth Airport 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 them 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 large size and coverage of the largest populated area.

Wellington International Airport has a stronger financial profile than the three Australian peers because of the former's less leveraged capital structure. 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: Infrastructure					
	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, 2017--	--Fiscal year ended June 30, 2017--	--Fiscal year ended June 30, 2017--	--Fiscal year ended June 30, 2017--	--Fiscal year ended June 30, 2017--
(Mil. NZ\$)					
Revenues	119.6	532.9	177.3	711.3	627.0
EBITDA	90.7	352.7	107.5	527.6	492.4
Funds from operations (FFO)	51.8	195.9	69.9	335.4	320.0
Net income from cont. oper.	16.1	124.9	64.6	183.6	332.9
Cash flow from operations	87.6	265.7	75.0	312.6	317.4
Capital expenditures	80.5	99.7	85.7	203.6	329.1
Free operating cash flow	7.1	166.0	(10.6)	109.0	(11.7)
Discretionary cash flow	(28.3)	(84.9)	(43.6)	55.9	(222.5)

Table 1

Wellington International Airport Ltd. -- Peer Comparison (cont.)

Industry Sector: Infrastructure					
	Wellington International Airport Ltd.	Perth Airport Pty Ltd.	Christchurch International Airport Ltd.	Brisbane Airport Corp. Pty Ltd.	Auckland International Airport Ltd.
Cash and short-term investments	67.8	13.5	3.3	79.9	45.1
Debt	356.4	2,078.8	369.3	2,323.8	1,942.9
Equity	512.9	812.9	826.9	2,045.9	4,029.0
Adjusted ratios					
EBITDA margin (%)	75.9	66.2	60.6	74.2	78.5
Return on capital (%)	7.4	7.9	5.6	8.4	8.4
EBITDA interest coverage (x)	3.6	3.3	5.0	3.1	6.0
FFO cash int. cov. (X)	3.5	2.9	4.6	3.0	4.9
Debt/EBITDA (x)	3.9	5.9	3.4	4.4	3.9
FFO/debt (%)	14.5	9.4	18.9	14.4	16.5
Cash flow from operations/debt (%)	24.6	12.8	20.3	13.5	16.3
Free operating cash flow/debt (%)	2.0	8.0	(2.9)	4.7	(0.6)
Discretionary cash flow/debt (%)	(8.0)	(4.1)	(11.8)	2.4	(11.5)

Financial Risk: Intermediate

We expect WIAL's financial metrics to worsen because of its capital investment. Underpinning the financial risk profile, however, is our expectation that the airport will maintain its funds from operations (FFO)-to-debt ratio above 13%.

We expect the airport's capital spending to be high in 2018. The construction of the multilevel car park is likely to be completed by mid-2018 and the hotel by end of the calendar 2018. We expect the airport's FFO-to-debt ratio to hover around 13% during this high capital-spending phase. Thereafter, its capital expenditure should reduce to its longer-term average of around 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 and steady growth in traffic. We expect a modest increase in EBITDA in fiscal 2019 due to revenues related to the new hotel and car park.

We note that the next airline tariff reset is scheduled for 2019 (fiscal 2020). At the current level of interest rates, and in the absence of other impacts such as increased aeronautical capital expenditure, this would likely reduce revenues slightly. However, we have not factored this into our base-case forecast given it remains some time away.

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

progressing.

Financial summary

Table 2

Wellington International Airport Ltd. -- Financial Summary					
Industry Sector: Infrastructure					
	--Fiscal year ended Mar. 31--				
	2017	2016	2015	2014	2013
(Mil. NZ\$)					
Revenues	119.6	113.5	108.3	110.9	106.2
EBITDA	90.7	86.8	82.9	87.0	84.4
Funds from operations (FFO)	51.8	51.5	50.4	52.0	50.8
Net income from continuing operations	16.1	12.5	9.7	23.5	16.2
Cash flow from operations	87.6	85.3	81.8	79.8	48.9
Capital expenditures	80.5	55.4	21.6	19.8	12.5
Free operating cash flow	7.1	29.9	60.2	60.0	36.4
Discretionary cash flow	(28.3)	(8.2)	25.0	28.2	10.5
Cash and short-term investments	67.8	5.9	22.3	28.9	5.7
Debt	356.4	296.1	263.3	258.7	251.4
Equity	512.9	506.6	438.1	440.3	427.7
Adjusted ratios					
EBITDA margin (%)	75.9	76.5	76.5	78.4	79.4
Return on capital (%)	7.4	8.4	8.4	9.2	8.9
EBITDA interest coverage (x)	3.6	4.4	4.3	4.2	4.2
FFO cash int. cov. (x)	3.5	4.4	3.9	3.5	3.6
Debt/EBITDA (x)	3.9	3.4	3.2	3.0	3.0
FFO/debt (%)	14.5	17.4	19.1	20.1	20.2
Cash flow from operations/debt (%)	24.6	28.8	31.1	30.9	19.4
Free operating cash flow/debt (%)	2.0	10.1	22.9	23.2	14.5
Discretionary cash flow/debt (%)	(8.0)	(2.8)	9.5	10.9	4.2

Liquidity: Adequate

WIAL's adequate liquidity is based on our expectation that its sources of liquidity (including forecast FFO, cash balances, and undrawn bank facilities) will exceed estimated uses by 1.2x over the next 12 months.

In our view, WIAL has a strong relationship with its banking syndicate and a prudent risk-management framework. WIAL issued two U.S. private placement (USPP) notes in July 2017 to refinance its August 2017 maturity and provide liquidity for planned capital expenditure. We also expect it to refinance its existing undrawn bank lines that mature in June 2018 prior to the end of its reporting year to further support liquidity. The next debt maturity is a NZ\$25 million wholesale bond due June 2019.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Undrawn line of credit and cash and cash equivalents of about NZ\$57 million as of Sept. 30, 2017. Cash FFO of about NZ\$77 million over the next 12 months. 	<ul style="list-style-type: none"> Capital expenditure of about NZ\$90 million over the next 12 months. Dividend and subvention payments in the region of NZ\$40 million over the next 12 months.

Debt maturities

Year end March 31	Amount (Mil. NZ\$)
2018	0
2019	0
2020	25
2021	25
2022	75
Thereafter	305

Covenant Analysis

WIAL's debt facilities are subject to covenants, which include maintaining its EBITDA interest coverage above 1.8x and debt-to-capital below 60%. We forecast that the company will continue to maintain significant headroom against those levels.

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)

Issue Ratings

Capital structure

WIAL's capital structure mainly comprises wholesale and retail bonds issued in New Zealand dollars and a US\$72 million USPP issuance completed in July 2017. We rate WIAL's senior unsecured debt at 'BBB+' in line with the corporate credit rating because there are no elements of subordination risk present in the capital structure.

Reconciliation

Table 3

Reconciliation Of Wellington International Airport Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. NZ\$)							
--Fiscal year ended Mar. 31, 2017--							
Wellington International Airport Ltd. reported amounts							
	Debt	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid
Reported	417.4	51.0	30.2	22.3	51.0	32.7	12.1
Standard & Poor's adjustments							
Interest expense (reported)	--	--	--	--	(22.3)	--	--
Interest income (reported)	--	--	--	--	0.8	--	--
Current tax expense (reported)	--	--	--	--	0.7	--	--
Operating leases	4.3	0.8	0.3	0.3	0.5	0.5	--
Surplus cash	(67.8)	--	--	--	--	--	--
Capitalized interest	--	--	--	2.4	(2.4)	--	--
Non-operating income (expense)	--	--	0.8	--	--	--	--
Debt - Unamortised capitalized borrowing costs	2.6	--	--	--	--	--	--
EBITDA - Other	--	38.9	38.9	--	38.9	--	--
FFO - Other	--	--	--	--	(15.5)	--	--
OCF - Taxes	--	--	--	--	--	15.5	--
OCF - Other	--	--	--	--	--	38.9	--
Dividends - Other	--	--	--	--	--	--	23.4
Total adjustments	(61.0)	39.7	40.0	2.7	0.8	54.9	23.4

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	356.4	90.7	70.2	25.0	51.8	87.6	35.5

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
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- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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Business And Financial Risk Matrix

Business Risk Profile	Financial 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 17, 2017)

Wellington International Airport Ltd.

Corporate Credit Rating

BBB+/Stable/A-2

Ratings Detail (As Of December 17, 2017) (cont.)

Commercial Paper

Local Currency

A-2

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.

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