

**Research Update:**

**Wellington Airport Outlook Revised  
To Stable On Strong Return Of  
Domestic Traffic; Rating Affirmed At  
'BBB'**

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## Research Update:

# Wellington Airport Outlook Revised To Stable On Strong Return Of Domestic Traffic; Rating Affirmed At 'BBB'

## Rating Action Overview

- Strong COVID controls in New Zealand, a steady and strong return of domestic traffic, and some resumption in international travel, will aid in a faster recovery of passengers at Wellington Airport, a predominantly domestic facility.
- Based on our traffic estimates, FFO/debt metrics at the airport's operator, Wellington International Airport Ltd. (WIAL), will trend toward 7.5%-8.5% in fiscal 2022 and improve to over 9%-10.5% in subsequent years.
- On June 21, 2021, S&P Global Ratings revised its outlook on WIAL to stable from negative. At the same time, we affirmed our 'BBB/A-2' issuer credit ratings on WIAL and 'BBB' issue credit ratings on WIAL's debt.
- The stable outlook reflects a steady ramp-up in domestic passenger traffic, increased certainty of recovery, strong COVID-19 controls in New Zealand, and some resumption of international travel.

## Rating Action Rationale

Domestic passenger traffic should remain resilient given strong COVID controls in New Zealand, notwithstanding short disruptions from time to time. Since mid-May 2020, domestic passenger traffic in WIAL has risen steadily and reached 50%-65% during July-September 2020. Subsequently the airport has consistently operated at domestic traffic above 70% and achieving approximately 90% pre-COVID passenger numbers in April and May 2021. Some variability (plus-minus 10%-20%) can arise when there are sudden pandemic-linked snap lockdowns in Auckland, a key domestic destination for Wellington Airport.

The commencement of a trans-Tasman bubble for international travel would see international passenger numbers ramp up over the next two to three years, particularly from Australia and Fiji, the two key international destinations for WIAL.

The airport achieved 25% of pre-COVID level of international travel in May 2021, although we expect this to be more gradual and prone to more disruptions over the next two to three years, given the sensitivity to subsequent pandemic waves in the destination country.

WIAL is the sole airport in New Zealand's capital city, Wellington, which is the seat of the country's government.

In addition, air travel is critical for New Zealand, given its location and lack of meaningful alternative modes of transport. For WIAL, domestic travel typically constitutes 85% of passengers and over 80% of international traffic is by travelers residing in Australia and New Zealand. Still, consumer propensity to travel amid social distancing efforts, reduced consumer discretionary spending, and quarantine measures may continue to weigh on the earnings of all airports, including WIAL.

We expect management to operate with a ratio of funds from operations (FFO) to debt of 7.5%-8.5% in fiscal 2022 (ending March 31, 2022), before returning to over 9% thereafter.

Our base case estimates EBITDA of NZ\$70 million in fiscal 2022, which assumes several weeks of both domestic and international lockdowns during the year, leading to an estimated FFO/debt of 7.5%. If conditions remain stable, WIAL's EBITDA may also improve to NZ\$75 million-NZ\$80 million in this fiscal year, implying an improved FFO/debt metric of 8%-8.5%. Subsequently, traffic ramp-up could see FFO/debt for the airport improve toward 9%-10.5% over the next two to three years.

We expect nil dividends over fiscal 2022 and minimal dividends in fiscal 2023, with ramp-up to normal levels thereafter.

Stay-in-business capital expenditure (capex) of NZ\$25 million per year can also be moderated to manage liquidity and cash flow leverage, in the event that business performance is weaker than expected. Also, we expect the airport to undertake discretionary growth capex only if it has tie-up of tenants.

The airport's management and shareholders remain committed to the 'BBB' rating.

We expect WIAL to manage its FFO/debt with some buffer over the 9% mark through appropriate capital management and discipline before embarking on a combination of expansive capex and dividends. Management has indicated that it will continue to closely monitor cash flow leverage, gearing, interest coverage ratios as well as operating and capital costs to maintain the rating within our current expectations. In the event of any further disruption in operating conditions, we expect management to take timely capital management initiatives, such as moderating discretionary capital spending or dividends, so as to maintain this metrics trajectory.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects.

Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will

update our assumptions and estimates accordingly.

**Environmental, Social and Governance (ESG) Credit factors for this outlook change:**

- Social – Health and safety management factors.

## Outlook

The stable outlook primarily reflects WIAL's steady and consistent ramp-up of domestic traffic as well as some visibility of resumption of international air travel.

After weakness in financial performance during fiscal 2021 because of the COVID-19 pandemic, we expect WIAL's FFO to debt to recover toward 7.5%-8.5% in fiscal 2022 and 9%-10.5% over the subsequent one to two years, based on our traffic estimates.

### Downside scenario

The rating could come under pressure if the pace of traffic recovery is materially slower than our estimates, or if the company were to undertake capital spending or shareholder returns beyond our expectations. An inability to reach an FFO to debt of above 9% in the next two years and manage any downside through appropriate and timely financial discipline and capital management measures, could lead to such rating pressure.

### Upside scenario

We see an upgrade as less likely over the next two to three years given WIAL would need to operate with an FFO-to-debt ratio with some buffer over 13% on a sustained basis. Such an improvement could happen if there is a sustained return of domestic traffic along with resumption of international traffic at levels approaching pre-COVID as concerns due to pandemic linked health issues dissipate and the propensity to travel increases, or WIAL were to lower capital spending and dividends materially so as to bring the leverage back to a level consistent with a higher rating.

## Company Description

WIAL owns and operates Wellington Airport, the third-largest airport in New Zealand. The airport benefits from its location that services New Zealand's capital city and received about 6.15 million passengers in fiscal 2020 (2.9 million in fiscal 2021 during the peak of the COVID-19 pandemic). The airport is 34% owned by Wellington City Council (AA+/Stable/A-1+) and the remainder by NZ Airports Ltd., a wholly owned subsidiary of New Zealand-based infrastructure fund Infratil Ltd.

## Our Base-Case Scenario

### Assumptions

- Given continuing uncertainty over the pandemic, we do not believe that passenger growth would directly correlate with domestic or regional GDP growth over the next few years.
- Total traffic to ramp up to 75% in fiscal 2022 (compared with fiscal 2020 levels) and subsequently to 95%-105% in the following two to three years.
- Domestic traffic forecasts assume a recovery to 80% of the pre-COVID levels in fiscal 2022 and then to 100%-110% over the subsequent two to three years.
- International travel to commence from mid calendar 2021, but ramp up more slowly reaching pre-COVID levels in 2024 and remain subject to government decisions on border controls.
- Revenues from retail, car parking, and hotel to remain subdued and broadly linked to passenger numbers.
- Moderate ramp-up in property income in fiscals 2022 and 2023 due to continued rental relief to clients and slow return of new tenants.
- Some cost savings to be wound back in fiscal 2022 and 2023 as traffic comes back in line.
- Capex toward maintenance to remain about NZ\$25 million per year. In addition, discretionary growth capex of NZ\$50 million to NZ\$ 100 million per year likely from fiscal 2023 onward, subject to demand and tenant availability.
- No dividends in fiscal 2022, minimal dividends assumed in fiscal 2023, and return to normal levels thereafter.
- All-in interest costs to remain at around 4%-4.5%.

### Key metrics

- FFO to debt to remain about 7.5%-8.5% in fiscal 2022, improving to 9%-10.5% in fiscals 2023 and 2024. WIAL may outperform this forecast should there be a speedy traffic recovery.
- FFO interest cover to remain above 2.5x.

## Ratings Score Snapshot

Issuer Credit Rating  
BBB/Stable/A-2

Business risk: Strong

- Country risk: Low
- Industry risk: Low

- Competitive position: Strong

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: bb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Positive (+1 notch)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone Credit Profile: bbb

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

Ratings Affirmed

Wellington International Airport Ltd.

Senior Unsecured	BBB
Commercial Paper	A-2

*Research Update: Wellington Airport Outlook Revised To Stable On Strong Return Of Domestic Traffic; Rating Affirmed At 'BBB'*

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Wellington International Airport Ltd.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2

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