Cincinnati/Northern Kentucky International Airport (OH)

Ratings

New Issues

$283,180,000 Senior airport revenue bonds series 2024	A+

Existing Issues

Senior airport revenue bonds series 2016 and 2019	A+

Rating Outlook

Stable

Applicable Criteria

Infrastructure & Project Finance Rating Criteria (May 2023)

Transportation Infrastructure Rating Criteria (December 2023)

Related Research

Peer Review of U.S. Airports

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The 'A+' rating on Cincinnati/Northern Kentucky International Airport's (CVG) debt reflects the airport's predominantly origination/destination (O&D) traffic base of over 4 million enplanements serving the Cincinnati market as operations have benefited from an increased presence of low-cost carriers and diversifying cargo services. The rating also reflects the solid hybrid compensatory airline use agreement (AUA) that generates sufficient coverage levels in the rating case as the airport embarks on a $1 billion capital program. Strong net cash flow generation together with robust liquidity result in moderate leverage and provide a resilient fiscal position.

Key Rating Drivers

Revenue Risk - Volume - High Midrange

O&D Airport; Sizable Cargo Operations: Delta Air Lines retains modest carrier concentration (about 35%) although the carrier's market share continues to decline as CVG diversifies its airlines base, with low cost carriers now accounting for about a third of the market. Large cargo services from DHL and Amazon also diversify CVG's aviation activity, providing some cost relief to passenger airlines, especially as cargo accounts for about two-thirds of CVG's landed weight. Competition remains present due to nearby surrounding commercial airports.

Revenue Risk - Price - Stronger

Sound Cost-Recovery Structure: The airport's hybrid compensatory airline agreement extends through December 2027, with possible extensions up to five years. The agreement includes strong cost recovery and robust net revenue generation, with surplus revenue sharing in the terminal cost center and an extraordinary coverage protection clause. Management uses passenger facility charges to fund eligible debt service. The new agreement will enhance net remaining revenue provisions, improving the airport's liquidity.

Infrastructure Development and Renewal - Stronger

Modern Facilities, Manageable Requirements: CVG's facilities are well maintained and have sufficient capacity to support its strategy to increase non-airline revenue streams. CVG's primary projects include the baggage handling system replacement, the Terminal Modernization Program, and various airfield and parking upgrades. The capital plan through 2029 totals $1.2 billion. Management's focus is on high priority projects necessary to modernize their facilities, while maintaining operational performance.

Debt Structure - Stronger

Favorable Debt Profile: All airport debt is senior, fixed-rate and fully amortizing through final maturity in 2054. The bonds benefit from standard structural features including a 1.25x rate covenant and cash-funded debt service reserve. The debt structure is flat in the long term following a moderate degree of escalation over the intermediate term.

Financial Profile

CVG's traffic recovery and increased revenues under the new AUA led to a 2023 debt service coverage ratio of 11.6x when applying federal funds as revenue. Fitch expects coverage to moderate to 2.2x by 2028 due to the increasing debt service profile. The airport's low debt burden and strong liquidity kept net debt-to-cash flow available for debt service negative in 2023, but is projected to rise with new issuances. Fitch notes a robust 614 days cash on hand for fiscal 2023. Cost per enplanement (CPE) is low at $9.65 in 2023 but is expected to increase with new debt.

Peer Analysis

Fitch views Memphis (A/Stable), Louisville (A+/Stable) and Indianapolis (A/Stable) as comparable peers to CVG due to their large cargo operations, with Memphis benefitting from the largest presence. Louisville and CVG share a higher rating level due to strong cash positions, however Louisville is expected to maintain low debt levels with negative leverage by fiscal 2027. Indianapolis has a larger enplanement base than CVG, but with comparable leverage due to similar capital improvement plan sizes. Memphis has both a smaller O&D base as well as a similar leverage position relative to CVG.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Sustained operational and financial underperformance relative to Fitch's rating case that leads to softer coverage and a CPE materially above historical levels and peers;
- Issuance of new debt that leads to sustained leverage above 8.0x under Fitch's rating case.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Due to CVG's limited catchment base, together with competition from nearby airports, the rating is unlikely to rise above 'A+'.

Overview

CVG, operational since 1947, serves the Cincinnati Metropolitan Statistical Area (MSA) and surrounding regions, occupying about 7,500 acres near Hebron, Kentucky, 14 miles southwest of downtown Cincinnati. It is accessible via several major highways. Although located in Boone County, the Kenton County Airport Board has the complete jurisdiction of the airport. Classified as a medium air traffic hub by the Federal Aviation Administration (FAA), it ranked 50th nationally in 2022. The airport also serves as DHL Express's main international cargo hub for the Americas and Amazon Air's principal U.S. hub. In 2022, it ranked seventh among North American airports for total cargo weight handled and sixth in the U.S. for all-cargo landed weight according to the FAA. Between 2019 and 2022, driven by increased Amazon Air service, the airport had the second-highest cargo weight increase among ranked airports.

Transaction Summary

The series 2024A and 2024B new money bonds will be used to finance $240 million in costs to replace the passenger terminal baggage handling system, rehabilitation of runway 18C-36C and related airfield upgrades. The series 2024 bonds are fixed-rate with final maturity in 2054.

Credit Update

CVG had 4.4 million passengers in 2023, representing 96% of 2019 levels and exceeding Fitch expectations by 6.6%. 2024 enplanements through May are 9.5% higher than the same period of the previous year. The enplanement recovery is relatively close to the national average in part due to the diversification of its carrier base to include more low-cost entrants, such as Frontier, Allegiant and Southwest, which has expanded the pool of O&D travelers. The higher concentration of low-cost airlines has prompted lower fares and aided in a faster traffic recovery and has lowered Delta's market share to 35% from 45% prior to the pandemic.

The airport has 12 scheduled airlines that serve 50 non-stop domestic destinations and four international destinations, which includes British Airways now providing non-stop service to London-Heathrow. Frontier announced a new crew base at CVG opening in May 2024. The base is expected to employ about 80 pilots and 160 flight attendants within its first year of operation. Frontier also announced eight new routes from CVG.

In 2023 total landed weight increased 17.1% year over year. The rise was led by a 20.5% surge in passenger landed weight and a 15.5% climb in cargo landed weight. By the end of 2023, CVG's landed weight had exceeded 2019 figures by 27.3% with Amazon accounting for almost half of the air cargo handled at CVG. In July 2023, DHL announced that it will invest $192 million at CVG to build a new aircraft maintenance facility. In the first two months of 2024, growth continued, with total landed weight advancing by 5.3% compared to year-earlier period. Notably, cargo operations constituted 67% of the total landed weight. According to ACI statistics, CVG has risen to become the 6th largest cargo airport in North America, surpassing New York-Kennedy and Chicago-O'Hare, and the 12th largest globally, outpacing Tokyo-Narita. In 2023, CVG distinguished itself as one of just four North American airports to register an increase in air cargo volume.

Recent project completions include the East Service Road replacement and the West Apron Project, both funded by CARES Act funds and BIL grants. Additionally, the concourse B apron and taxiways project wrapped up in December 2023, with FAA Discretionary and Bipartisan Infrastructure Law Airport Infrastructure Grant (BIL Airports Council International) grants as the primary funding sources.

The current capital improvement plan through 2028 totals $1.2 billion. CVG's capital improvement plan continues to prioritize essential capital projects that are critical to maintaining operational performance, safety and customer service. Key ongoing projects include the replacement of 30-year-old concourse B loading bridges, the rehabilitation of runway 18C/36C center, and the concourse A apron rehabilitation. These projects are funded through a mix of passenger facility charges, BIL ATP grants and Airport Improvement Program Entitlement and Discretionary grants."

"Elevate CVG" is the airport's terminal improvement capital program. Proceeds of the series 2024 bonds and future issuances will be used for the funding of a new $226 million baggage handling system. Additionally, the program will include the Terminal Modernization Program, which will include the buildout of the customer service building and refurbishments to the main terminal and passenger tunnel, along with concourse A and B renovations.

Effective January 1, 2023, a new signatory airport use and lease agreement (AUA) was implemented. The new agreement consolidates airport use and facility lease provisions into one agreement until December 31, 2027, with potential extensions up to five additional years. The new AUA establishes minimum leasing requirements. and introduces a revenue-sharing formula for net remaining revenues that includes a $10 million carve-out that benefits CVG before revenue sharing commences providing the airport with a better liquidity position. Delta, Frontier, Allegiant, Southwest, United, and cargo carriers Amazon, DHL, and FedEx are signatories of the new agreement while American Airlines has also approved the terms and is in the process of finalizing its signature.

Key Features

Project Summary Data		Financial Summary Data	
Project type	Airport	Rated debt terms	$345 million debt outstanding, final maturity in 2054.
Project location	Cincinnati, OH	Amortization profile	Fixed rate, fully amortizing. Debt service escalates through 2029 and is level thereafter.
Project status	Operational	Tail before concession maturity	Not applicable.
Revenue basis	Actual	Guarantors	Not applicable.
Concession granting authority	Not applicable	Reserves	Unrestricted funds: Unrestricted cash and O&M Reserve of approximately $220 million as of December 31, 2023.
Applicable regulation	FAA	Transaction triggers	1.25x rate covenant; 1.25x ABT.
Operator	CVG	Insurance advisor	Not applicable.

Note: ABT – additional bonds test.
Source: Fitch Ratings

Financial Analysis – Financial Profile and Rating Case

Current Cases

The Fitch base case incorporates the airport's expectations of future performance. Enplanements grow at a 2% CAGR for 2024-2028 while non-airline revenues track closely to enplanement growth. Expenses are anticipated to rise by an average 4.2% per annum, and the airport's cash position is assumed to equal around 500 days of cash. This results in a five-year average DSCR of approximately 4.1x. CPE peaks around $16.52 in 2028. Total leverage is manageable at 5.2x in 2028 including potential future borrowings.

Fitch's rating case assumes a 6.5% traffic decline in 2025, followed by a 2.0% annual recovery, yielding a CAGR of -0.2% for through 2028. Operating expenses are assumed to remain flat in the year of volume loss then grow at 1% above the base case level. In this scenario, five-year DSCR averages a robust 4.0x with CPE reaching $18.94 in 2028. Total leverage remains manageable at 5.4x in FY 2028 including potential future borrowings.

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