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Research Update:

Royal Schiphol Group N.V. Outlook Revised To Positive On Stronger Cash Flows; 'A' Rating Affirmed

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Rating Action Overview

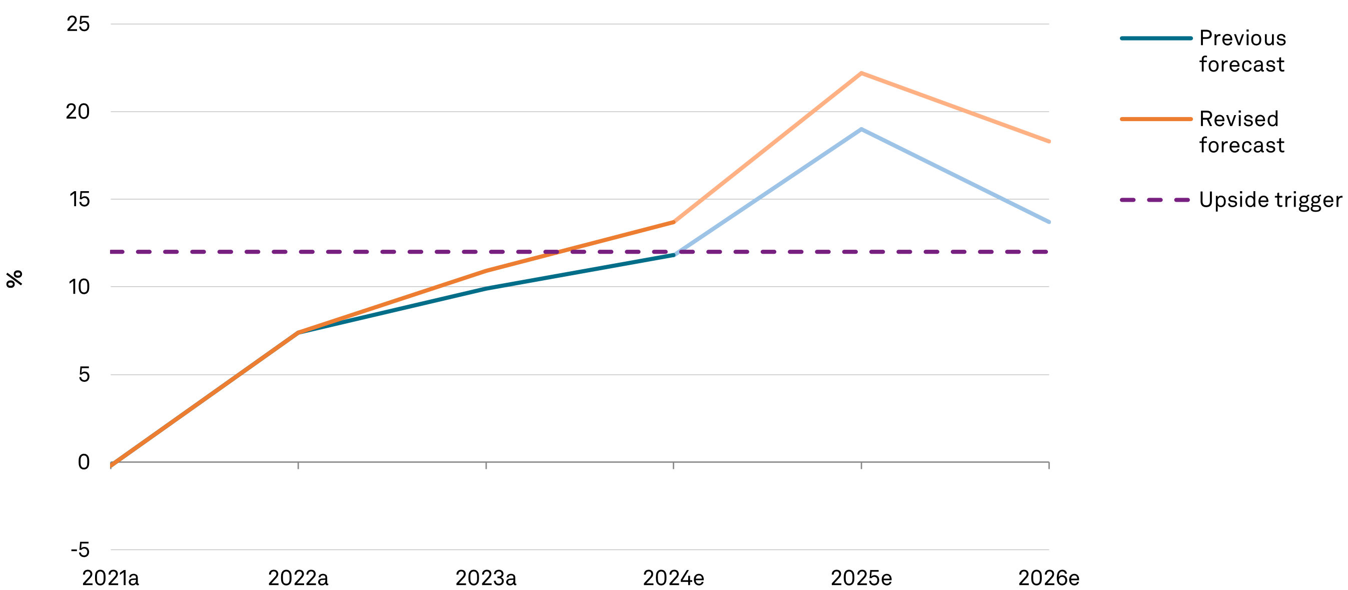
- Following stronger-than-anticipated cash flows in 2023, we expect Royal Schiphol Group N.V.'s credit metrics will likely improve in 2024, as higher airport charges and a delay in implementing the airport's 452,500 cap on air traffic movements (ATMs) are likely to offset expected significant increase in capital expenditure (capex).
- We now estimate that Schiphol's funds from operations (FFO) to debt could sustainably strengthen above our 12% upgrade threshold in 2024 onwards, earlier than our previous expectations.
- We therefore revised our outlook on Schiphol to positive from stable and affirmed our 'A/A-1' long-term issuer credit rating and 'A' issue ratings on the company and its senior unsecured debt.
- Our ratings continue to reflect two notches of uplift to our 'bbb+' assessment of Schiphol's stand-alone credit profile (SACP) due to our view of a moderately high likelihood of extraordinary government support.
- The positive outlook reflects potential upside to Schiphol's stand-alone credit profile and the overall rating if the company's FFO to debt stabilizes above 12%, hinging on clarity on tariff developments, financial policy, and continuing robust operating performance.

Rating Action Rationale

The outlook revision reflects our expectation that Schiphol could maintain FFO to debt above our upside trigger of 12% over the next few years, depending on its upcoming tariff decisions and high capital spending.

We anticipate the airport will raise its charges by 14.8% in 2024, higher than our earlier expectation of 12%, followed by another 30% in 2025 for the next three-year regulatory period. This supports stronger cash flows for the year, with FFO to debt likely to sustainably increase above our upside trigger earlier than anticipated. The additional tariff increase in 2024 addresses compensation for the prior lost aviation revenue due to persistent travel restrictions in 2022 and a shortage in security staff that led to fewer flights. Under our base-case scenario, we expect the tariff increases could offset relatively weaker traffic growth than peers, anticipated increases in capex (as the company catches up on historical underspending and focuses on modernizing its aging assets), and the potential restart of dividends.

Schiphol's current and previous FFO to debt trajectories



Source: S&P Global estimates

Schiphol's lower expected leverage also follows its stronger-than-expected results in 2023, with higher cash flows and lower net debt than what we had originally anticipated. This was primarily from lower capital spending, which reached about €678 million in 2023 versus our expectation of about €780 million. Schiphol reported EBITDA of €501 million (€371.1 million in 2022) for the year, with the EBITDA margin reaching 27.1% (from 24.9% in 2022), broadly in line with expectations. This was supported by traffic volume recovery (at 86% of 2019 levels) and 12% increase in airport tariffs for the year.

We now expect Schiphol's traffic to be slightly above our previous projections, supported by delays in implementing its capacity cap on ATMs, but constraints on long-term growth remain. In November 2023, the Dutch government scrapped its temporary rule to lower Schiphol's capacity cap to 460,000 ATMs, from 500,000 ATMs in 2024, which should further support traffic and cash flow for the year. However, we understand that the intention to ultimately reduce capacity to 452,500 ATMs per year under the EU's "balanced approach" requirement remains. We think the process could be hindered given the need for a new government and further assessment from the European Commission, with the timing and magnitude in capacity change unclear. As such, we now expect traffic to be slightly higher than our previous projections, reaching 93%-95% of 2019 levels over the next two years, compared with our earlier assumption of 90%-93%. However, we continue to assume traffic is unlikely to reach 2019 levels before 2027, with annual passenger traffic growth broadly in line with European GDP, much lower than the growth we saw before 2019. This reflects Schiphol's uncertainty relating to the implementation of its capacity cap, lower business travel, increasing negative environmental and social sentiment towards air travel in the Netherlands, and potentially higher tariffs levels that could make it one of the most expensive airports in Europe.

Risks to our forecasts stem from the airlines' challenges to Schiphol's high tariff increases in the next two years. Following several years of considerable tariff increases (9% in 2022, 12% in 2023, 14.8% set for 2024, and 30% expected in our base-case scenario for 2025), airlines have appealed these tariff increases to the regulator (Authority for Consumers and Markets). The regulator had rejected these claims because the tariffs set by Schiphol had been in line with its regulatory framework. The airport is entitled to compensation for lower historical traffic due to the pandemic, as well as lower future traffic when the cap on ATMs is implemented. Charges in 2025 should also include higher operating expense mainly due to inflation over the 2022-2024 regulatory period. However, airlines have taken their appeal beyond the regulator on the grounds of the increases' "reasonableness", with a decision expected later this year. This comes at a time when Schiphol enters into an important consultation process for the 2025-2027 tariffs. In our view, a negative outcome against the 9% and 12% tariff hikes in 2022 and 2023 could undermine Schiphol's expected 2025 hike. We expect to have more visibility by October 2024, when we anticipate the charges to be set, with the regulator ruling on any complaints on March 31, 2025.

The sustainability of Schiphol's financial strength will heavily depend on the company's ability to balance its spending commitments and lower leverage for a higher rating level. As it stands, the expected increase in aeronautical charges could result in a temporary spike in FFO to debt in 2025, before falling potentially below 12% in 2026. However, Schiphol's ability to manage its leverage in line with a higher rating level will hinge on how the company balances its high capex requirements and dividends, which we expect will restart in 2026. With long-awaited renovations and maintenance post-pandemic, we anticipate that Schiphol's capital spending will increase to €1.0 billion-€1.2 billion per year. During the pandemic, the company scaled back on investments to preserve cash flows in countering low passenger traffic volumes. However, with higher cash flows following traffic recovery and tariff hikes, we foresee pressures for higher spending levels as the company's catch-up on overdue investments coincides with persistent inflation. We think spending will fund the airport's quality, safety, and sustainability, rather than any expansion in capacity.

We continue to believe that Schiphol benefits from a moderately high likelihood of extraordinary government support if needed. As such, we apply two notches of uplift to our 'bbb+' assessment of Schiphol's SACP. We continue to believe that the company has an important role for the Dutch government, given the group's main asset, Amsterdam Airport Schiphol, is essential infrastructure and a key element of the Netherlands' open and export-oriented economy. In our view, there is a clear need for the airport to operate without disruption, because any interruptions could have a significant impact on the economy. We also think Schiphol has maintained a strong link with the Dutch government, and the government has a track record of supporting entities such as Schiphol.

Outlook

The positive outlook reflects our expectation that Schiphol's improving operating performance, clarity on regulatory tariffs, and financial policy could lead to stronger financial metrics over the next 18-24 months.

Upside scenario

We could raise the rating on Schiphol if its FFO to debt remains sustainably above 12%. This will depend on:

- Gaining visibility on final charges approved for the next regulatory period (2025-2027). This will also depend on the appeal for the 2022 and 2023 tariff increases not leading to weakening of the company's regulatory framework. Additionally, we would expect Schiphol's competitive position will not deteriorate beyond our expectations because of the company's likely capacity cap and higher tariff increases; and
- Schiphol's performance and financial policy commitment, demonstrating that it can control its investment spending, dividends and cost of debt increases to maintain FFO to debt above 12% beyond 2025. This threshold incorporates the potential risk related to the 452,500 ATM capacity cap and the effect that materially higher expected charges from 2025 could have on Schiphol's growth prospects its competitive position as a hub airport.

Downside scenario

We could revise the outlook to stable if the company experiences negative tariff decisions beyond our expectations, resulting in leverage staying lower than 12%. This could also follow the company maintaining a financial policy that is more aggressive than anticipated and a material deterioration in its competitive position. This could also be amid further environmental or other regulations that adversely affect the company's stability and predictability of cash flow.

All else being equal, a one-notch downgrade of the Netherlands would not affect the rating on Schiphol.

Company Description

Schiphol owns and operates the largest Dutch airport, Amsterdam Airport Schiphol, which is one of Air France-KLM's two major hubs. Before the pandemic, the airport served almost 72 million passengers and was the third-largest in Europe by number of passengers and cargo volumes. Schiphol has a virtual monopoly on air travel originating and ending in the Netherlands and remains a major driver of the Dutch economy.

In addition to its operations in Amsterdam, a major capital in Europe, Schiphol also owns and operates Lelystad Airport and Rotterdam Airport, holds a 51% stake in Eindhoven Airport and, since 2023, holds a 40% stake in Maastricht Airport. Its international operations include a 19.61% stake in Brisbane Airport, a 35% stake in Hobart International Airport (Tasmania), and a management contract for Terminal 4 of John F. Kennedy Airport in New York.

Schiphol operates in four main business lines:

- Aviation (62% of 2023 revenue);

- Consumer products and services, including retail and parking (17%);
- Real estate (11%); and
- Alliances and partnerships (10%).

Schiphol is 69.8% owned by the Netherlands--which supports the rating--20% by the Municipality of Amsterdam, and 2% by the Municipality of Rotterdam, with the remaining 8% being treasury shares.

Our Base-Case Scenario

Assumptions

- Dutch consumer price index growth of 3.3% in 2024 and 2.4% in 2025.
- Passenger traffic as a proportion of 2019 levels to increase to 93%-95% of 2019 passenger traffic volumes over the next two years.
- Starting in 2025, annual passenger growth of 1.6%-1.7%, broadly in line with European GDP and much lower than seen before 2019. This is because airport charges are expected to rise significantly starting in 2025, which could affect the number of passengers.
- An increase in airport charges of about 14.8% in 2024. We assume a further significant increase of about 30% in airport charges in the next regulatory period, reflecting the company's supportive regulations.
- EBITDA margins improve to about 30% in 2024, from 28% in 2023, and approaching 40% in 2025. This reflects higher implemented tariffs and passenger recovery. Margins could improve to above 40% thereafter versus 40.7% pre-pandemic, reflecting significantly higher expected tariffs.
- Annual capex of about €1.0 billion in 2024, reaching up to €1.2 billion thereafter.
- No dividend distributions to shareholders until 2026, when we expect the dividend payout ratio will revert to 60% of the previous year's net profit.

Key metrics

Royal Schiphol Group N.V.--Forecast summary

Industry sector: Air transport

	--Fiscal year ended Dec. 31--						
(Mil. €)	**2020a**	**2021a**	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**
Revenue	688.3	816.3	1,490.6	1,852.0	2,100-2,200	2,600-2,700	2,650-2,750
EBITDA (reported)	(206.2)	84.7	371.1	500.6	685-690	1,000-1,100	1,100-1,200
Plus/(less): Other	65.4	6.6	1.9	18.8	1.9	1.9	1.9
EBITDA Adj.	(140.8)	91.3	373.0	519.4	685-690	1,000-1,100	1,100-1,200
Less: Cash interest paid	(71.8)	(95.6)	(80.2)	(79.4)	(100)-(110)	(100)-(110)	(110)-(120)
Less: Cash taxes paid	(53.9)	(3.0)	(13.1)	(15.9)	--	--	(52.0)

Royal Schiphol Group N.V.--Forecast summary (cont.)

Industry sector: Air transport

	--Fiscal year ended Dec. 31--						
(Mil. €)	**2020a**	**2021a**	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**
Funds from operations (FFO)	(266.6)	(7.3)	279.6	424.1	580-600	990-1,000	935-945
Debt (reported)	4,848.0	5,389.9	5,350.2	4,919.3	4,750-4,850	4,500-4,600	5,100-5,200
Plus: Lease liabilities debt	17.6	17.1	14.9	14.3	14.3	14.3	14.3
Plus: Pension and other postretirement debt	57.7	48.5	37.9	40.9	40.9	40.9	40.9
Less: Accessible cash and liquid Investments	(1,154.9)	(1,170.3)	(1,633.9)	(1,090.1)	(500)-(550)	(150)-(200)	(90)-(100)
Plus/(less): Other	24.4	14.8	25.4	4.1	4.1	4.1	4.1
Debt	3,792.7	4,300.0	3,794.5	3,888.5	4,300-4,400	4,450-4,550	5,000-5,100
Cash and short-term investments (reported)	1,223.4	1,239.8	1,730.8	1,154.7	560-580	170-190	100.0
Adjusted ratios							
Debt/EBITDA (x)	(26.9)	47.1	10.2	7.5	6.0-6.2	4.0-4.3	4.5-4.7
FFO/debt (%)	(7.0)	(0.2)	7.4	10.9	13.0-14.0	21.0-23.0	17.0-19.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Schiphol's liquidity as adequate, based on our expectation that liquidity sources will cover uses more than 1.2x for the 12 months to Dec. 31, 2024. In our view, management exercises prudent risk management, the company has a high standing in the credit markets, and its debt documentation is favorable with limited covenant protections.

Principal liquidity sources for 2024 include:

- Cash and cash equivalents of about €1.2 billion, including €785 million of unrestricted cash and cash equivalents and €370 million in short-term deposits, which we view as accessible and liquid.
- Undrawn and committed credit facilities maturing beyond 12 months of about €675 million, including a €400 million revolving credit facility maturing October 2027 and a €100 million bank line maturing January 2026.
- Estimated cash FFO of €580 million-€600 million.

Principal liquidity uses for 2024 include:

- Debt maturities of about €309 million.
- Capex of about €1.0 billion. This includes some growth capex but the company has flexibility to manage its needs depending on when the funding is received for these projects.
- No dividends.

Environmental, Social, And Governance

Environmental factors remain a moderately negative consideration in our analysis of Schiphol. The airport's exposure to noise pollution, the government's decarbonization targets, and the subsequent regulatory constraints that have further limited airport capacity are likely to affect the company's competitive position and growth prospects, in our view. We see increasing pressure in Europe, and in the Netherlands in particular, to curb carbon emissions and align with the country's net-zero carbon targets. Amid a weaker operating environment with rising inflation, we believe this will strain and slow the company's deleveraging efforts following the height of the pandemic. We no longer expect the airport to recover to 2019 passenger levels before 2027, which will weigh on the company's cash flow. In April 2023, the airport announced additional measures toward noise and carbon dioxide emissions reduction, including a potential ban on night flights (less than 3% of the total) and private jets by 2025-2026. Potentially offsetting this are the airport's supportive regulations allowing a traffic-risk-sharing mechanism, which will entitle the company to compensation for lost revenue due to lower traffic volumes because of the lower capacity cap and the pandemic, as well as past investments.

We now have greater visibility of the recovery path, with Schiphol's passenger traffic standing at about 90% of 2019 levels for the month of January 2024. However, we believe that like other European airports, Schiphol is exposed to traffic-related disruptions due to health and safety considerations and therefore still operates in what we consider a moderately negative environment, which is a consideration in our credit analysis.

Issue Ratings - Subordination Risk Analysis

Capital structure

Schiphol's capital structure consists primarily of €4.0 billion of senior unsecured notes under its euro medium-term note program, plus unsecured bank loans of about €909 million. The group's total gross debt amounted to €4.9 billion as of Dec. 31, 2023.

Analytical conclusions

We rate the unsecured debt issued by Schiphol 'A', the same as our issuer credit rating, reflecting that priority liabilities in the form of secured loans are significantly less than 50%.

Ratings Score Snapshot

Issuer Credit Rating	A/Positive/A-1
Business risk:	Excellent
Country risk	Very low
Industry risk	Low
Competitive position	Excellent
Financial risk:	Significant
Cash flow/leverage	Significant

Issuer Credit Rating	A/Positive/A-1
Anchor	a-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	bbb+
Related government rating	AAA
Likelihood of government support	Moderately high (+2 notches from SACP)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

Related Research

- Full Analysis: Royal Schiphol Group N.V., Nov. 30, 2023
- Research Update: Royal Schiphol Group N.V. Upgraded To 'A/A-1' On Stronger Than Anticipated Deleveraging; Outlook Stable, Aug. 30, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Royal Schiphol Group N.V.		
Schiphol Nederland B.V.		
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
Royal Schiphol Group N.V.		
Schiphol Nederland B.V.		
Senior Unsecured	A	