

Tear Sheet:

# Royal Schiphol Group N.V.

September 5, 2024

**We still think Schiphol's leverage could improve beyond our upside trigger of funds from operations (FFO) to debt of 12% over the next three years.** Following an increase in airport charges of 14.8% in April 2024 and its ongoing traffic recovery, the recently published first-half fiscal 2024 financial results show deleveraging in line with our current forecasts. For the first half, Schiphol reported EBITDA of €309 million, with an EBITDA margin of close to 30%, broadly in line with pre-pandemic levels. Debt levels have remained stable. As such, we estimate FFO to debt will increase to close to 13% in 2024, from 10.9% in December 2023.

**We believe that Schiphol's high tariff increases for the next regulatory period (2025-2027) face less risk from appeals, but uncertainty lingers.** We understand that the appeals process related to previous tariff increases in 2022 (9%) and 2023 (12%), have now been rejected by the regulator (Authority for Consumers and Markets [ACM]) and the higher regulatory body. At this point there are no further appeals in process. We view this development as alleviating some of the uncertainty about Schiphol's ability to implement steeper hikes for its next regulatory period, which we expect to be about 30% in 2025. However, we note that such a steep tariff hike is unprecedented and is unlikely to go without challenges from the industry. We will likely have a clearer picture toward the end of the year, when the charges are expected to be finalized, with the final approval from the regulator ultimately due on March 31, 2025.

**We believe Schiphol's ability to manage its leverage in line with a higher rating will hinge on how it balances its high capital expenditure (capex) needs and dividends, which we expect will restart in 2026.** We anticipate that the tariff increase in 2025 will lead to a temporary spike in FFO to debt to around 20%. Still, we forecast capex to increase to about €1.2 billion a year over the next five years, from €676 million in 2023. We foresee higher spending pressures as the company enters a period of long-awaited renovations coinciding with persistent inflation. As a result, FFO to debt could come down again, potentially to below 12% in the subsequent years, unless offset by stronger operational performance.

**Although the implementation of Schiphol's capacity cap is uncertain, constraints on long-term passenger growth remain.** We anticipate that the cap will continue to be delayed until a new airport decree has been implemented that outlines a new noise management system. Notwithstanding this, we note the government's recently announced measures for Schiphol that aim to reduce air traffic movements (ATMs) from 500,000 to 475,000-485,000 (previously 460,000-470,000 ATMs). This should alleviate some capacity constraints if successfully implemented, noting that the scale of reduction is smaller than we previously anticipated. However, we continue to assume traffic is unlikely to reach 2019 levels before 2027, staying

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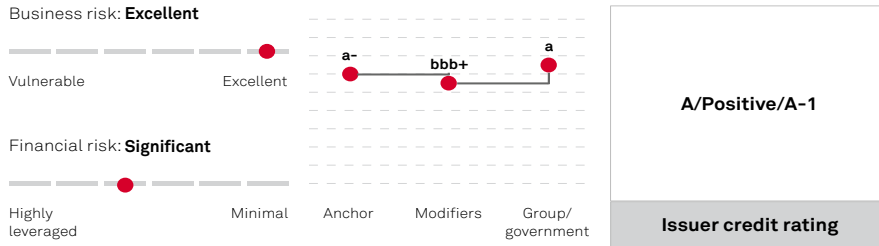
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around 93%-95% of 2019 levels over the next two years. Despite the delay in the cap, which allows Schiphol to now operate around 480,000 ATMs per year, we see longer-term pressures from reduced business travel, increasingly negative environmental and social sentiments toward air travel in the Netherlands, and potentially higher tariffs that could make Schiphol one of the most expensive airports in Europe.

## Ratings Score Snapshot



## Recent Research

- Research Update: Royal Schiphol Group N.V. Outlook Revised To Positive On Stronger Cash Flows; 'A' Rating Affirmed, May 13, 2024

## 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.

## 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.

### 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 happen 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.

### 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 any tariff appeals not weakening the company's regulatory framework. Additionally, we would expect Schiphol's competitive position would 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 increases to debt costs to maintain FFO to debt above 12% beyond 2025. This threshold incorporates the risk related to the potential capacity cap, which could range between 475,000 and 485,000 ATMs, and the effect that materially higher-than-expected charges from 2025 could have on Schiphol's growth prospects and its competitive position as a hub airport.

## Key Metrics

### Royal Schiphol Group N.V.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Passengers (% of 2019 levels)	29.1	35.6	73.2	86.3	93.0-95.0	94.0-96.0	96.0-98.0
Revenue	688	816	1,491	1,852	2,100-2,200	2,600-2,700	2,600-2,700
EBITDA (Adjusted)	(141)	91	373	519	650.0-700.0	1,000-1,100	1,000-1,100
Funds from operations (FFO)	(267)	(7)	280	424	550.0-600.0	950.0-1,000	900.0-950.0
Capital expenditure (capex)	700	450	454	676	Around 1,200	Around 1,200	Around 1,200
Dividends	--	--	--	3	--	--	300.0-400.0
Debt (Adjusted)*	3,793	4,300	3,795	3,888	4,300-4,400	4,400-4,500	5,100-5,200
Cash and short-term investments (reported)	1,223	1,240	1,731	1,155	500.0-550.0	200.0-250.0	Around 100.0

**Royal Schiphol Group N.V.--Forecast summary**

**Adjusted ratios**

FFO/debt (%)	(7.0)	(0.2)	7.4	10.9	Around 13.0	Around 20.0	Around 17.0
EBITDA margin (%)	(20.5)	11.2	25.0	28.0	30.0-33.0	40.0-43.0	40.0-43.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro. Debt is adjusted for lease liabilities, pensions and is net of accessible cash.

## Financial Summary

**Royal Schiphol Group N.V.--Financial Summary**

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,509	1,615	688	816	1,491	1,852
EBITDA	580	658	(141)	91	373	519
Funds from operations (FFO)	458	531	(267)	(7)	280	424
Interest expense	88	82	91	84	77	79
Cash interest paid	76	81	72	96	80	79
Operating cash flow (OCF)	529	523	(157)	(76)	354	489
Capital expenditure	560	811	700	450	454	676
Free operating cash flow (FOCF)	(31)	(288)	(857)	(526)	(100)	(188)
Discretionary cash flow (DCF)	(182)	(406)	(857)	(526)	(520)	(191)
Cash and short-term investments	387	155	1,223	1,240	1,731	1,155
Gross available cash	387	155	1,223	1,240	1,731	1,155
Debt	2,381	2,748	3,793	4,300	3,795	3,888
Common equity	4,117	4,372	3,777	3,531	3,506	3,499
<b>Adjusted ratios</b>						
EBITDA margin (%)	38.5	40.7	(20.5)	11.2	25.0	28.0
Return on capital (%)	5.9	6.1	(7.4)	(1.8)	1.1	3.1
EBITDA interest coverage (x)	6.6	8.0	(1.5)	1.1	4.8	6.6
FFO cash interest coverage (x)	7.0	7.6	(2.7)	0.9	4.5	6.3
Debt/EBITDA (x)	4.1	4.2	(26.9)	47.1	10.2	7.5
FFO/debt (%)	19.2	19.3	(7.0)	(0.2)	7.4	10.9
OCF/debt (%)	22.2	19.0	(4.1)	(1.8)	9.3	12.6
FOCF/debt (%)	(1.3)	(10.5)	(22.6)	(12.2)	(2.6)	(4.8)
DCF/debt (%)	(7.6)	(14.8)	(22.6)	(12.2)	(13.7)	(4.9)

## Peer Comparison

Royal Schiphol Group N.V.--Peer Comparisons

	Royal Schiphol Group N.V.	Aeroports de Paris	Avinor AS	Flughafen Zurich AG	daa PLC
Foreign currency issuer credit rating	A/Positive/A-1	A-/Stable/--	A/Stable/A-1	A+/Positive/--	A/Stable/A-1
Local currency issuer credit rating	A/Positive/A-1	A-/Stable/--	A/Stable/A-1	A+/Positive/--	A/Stable/A-1
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,852	5,717	1,027	1,270	1,018
EBITDA	519	2,230	322	715	350
Funds from operations (FFO)	424	1,631	252	629	296
Interest	79	393	86	16	28
Cash interest paid	79	394	70	22	29
Operating cash flow (OCF)	489	1,554	229	718	216
Capital expenditure	676	1,223	386	470	180
Free operating cash flow (FOCF)	(188)	331	(157)	248	36
Discretionary cash flow (DCF)	(191)	6	(157)	130	30
Cash and short-term investments	1,155	2,380	127	580	805
Gross available cash	1,155	2,380	127	515	805
Debt	3,888	9,357	2,444	1,254	816
Equity	3,499	5,297	1,201	3,012	1,435
EBITDA margin (%)	28.0	39.0	31.4	56.3	34.3
Return on capital (%)	3.1	9.8	3.6	9.5	11.0
EBITDA interest coverage (x)	6.6	5.7	3.8	44.7	12.7
FFO cash interest coverage (x)	6.3	5.1	4.6	29.0	11.3
Debt/EBITDA (x)	7.5	4.2	7.6	1.8	2.3
FFO/debt (%)	10.9	17.4	10.3	50.1	36.2
OCF/debt (%)	12.6	16.6	9.4	57.3	26.4
FOCF/debt (%)	(4.8)	3.5	(6.4)	19.8	4.4
DCF/debt (%)	(4.9)	0.1	(6.4)	10.4	3.7

## 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 a clearer picture of the recovery path. Schiphol's passenger traffic has rebounded to about 94% of 2019 levels as of July 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.

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>A/Positive/A-1</b>
<b>Local currency issuer credit rating</b>	<b>A/Positive/A-1</b>
<b>Business risk</b>	<b>Excellent</b>
Country risk	Very Low
Industry risk	Low
Competitive position	Excellent
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>a-</b>
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)
<b>Stand-alone credit profile</b>	<b>bbb+</b>

## Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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

**Royal Schiphol Group N.V.**

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

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