Research Update:

Aeroporti di Roma SpA Downgraded To 'BBB-' On Equity Reserves Distribution; Outlook Stable

April 7, 2025

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Rating Action Overview

- Aeroporti di Roma SpA's (AdR's) €748 million equity reserves distribution to parent company Mundys SpA (BB+/Stable/B) is an unanticipated redistribution of cash that increases AdR's leverage and, in our view, reduces the degree of insulation from its parent.
- As a result, we think AdR can be rated one notch above Mundys, from the previous two notches. This is because the regulatory oversight embedded in the concession agreement, coupled with certain restrictive covenants, protects AdR to some extent. AdR operates independently from Mundys and its funding is separate.
- The airport is performing strongly, with 53.1 million passengers in 2024, which is 7.4% above 2019 levels (stronger than most rated peers) and is already performing about 9% above 2024 in the first months of this year, supporting our view of Rome being an attractive religious and tourist destination.
- As a result of the equity reserves distribution, we project AdR's S&P Global Ratings-adjusted funds from operations (FFO) to debt will decline to about 18%-19% in 2025-2027, from 25%-26% under our previous base case, while the company executes its capital expenditure (capex) plan (about €1.4 billion over 2025-2027) focussing on Terminal 3 and Pier D.
- Therefore, we lowered the long- and short-term issuer ratings to 'BBB-/A-3', from 'BBB/A-2' and revised downward our stand-alone credit profile (SACP) assessment for AdR to 'a-' from 'a'.
- The stable outlook mirrors that on Mundys, given the current one-notch differential we reflect in our rating on AdR.

Rating Action Rationale

AdR's recent €748 million equity reserves distribution to Mundys reduces the degree of insulation from its parent. We understand the equity reserve distribution, which took place in February and fully utilized AdR's distributable equity reserves, was funded by existing liquidity and a full temporary drawdown of AdR's committed €350 million revolving credit facility (RCF) and is part of Mundys' capital structure strategy to redistribute funds within the group. As

result, we think AdR can be rated one notch above its parent, Mundys. AdR is required to meet certain conditions under its concession agreement with the Italian Civil Aviation Authority (ENAC), including an annuity-based synthetic debt service coverage ratio (DSCR), which is expected to remain well above the testing threshold of 1.20x after the equity reserve distribution. If the DSCR falls below 1.6x, AdR must obtain authorization from the grantor for special transactions, such as disposals and acquisitions. Furthermore, operations and investments are monitored by ENAC and the Transport Regulation Authority. AdR's statutory board also provides regulatory oversight, where the majority of auditors are appointed by the Ministry of Economic Affairs, Ministry of Finance, and Ministry of Infrastructure and Transportation. Although the statutory board does not have veto powers, we consider its oversight protects AdR, to some degree. In addition, AdR operates independently from Mundys and its funding is separate. We do not anticipate that a default of one of Mundys' assets could put pressure on AdR since there are no operating ties between the company and other assets controlled by the parent, nor are there cross default clauses in the debt documentation. Although the equity reserves distribution resulted in us revising downward our SACP assessment on AdR to 'a-' from 'a', we anticipate Mundys has a strong incentive to preserve AdR's credit quality. In fact, we expect AdR to continue to distribute ordinary dividends to Mundys over the coming years, although the exhausted distributable reserves imply that dividends will now be limited to 100% of the previous year's net profits. In our view, this limits the likelihood of unexpected cash depletion, which could further increase leverage. Finally, we understand management is committed to maintaining an adequate cushion against the financial covenants included in the loan agreements (threshold at 4.25x net debt to EBITDA, compared with 3.50x net debt to EBITDA in 2027 under our forecasts).

We now estimate FFO to debt will decline to 18%-19% over the next three years since we anticipate the dividend distribution, capex plan, and higher interest expenses resulting from the leverage shift will weigh on AdR's cash flow generation. We estimate 2025's total distributions to shareholders will be about €910 million, including the €161 million balance payment on last year's net income--payment of which is subject to the completion of the upcoming bond issuance envisaged in the coming months. From 2026, we understand AdR's dividend payout will be 100% of the previous year's net income since February 2025's distribution fully exhausted the airport's distributable equity reserves. Over the next three years, we continue to expect the bulk of capex will be allocated to expanding and refurbishing Terminal 3 and refurbishing Pier D (the completion of the South Fiumicino project). Once finished, this will expand Fiumicino airport's (FCO's) capacity to about 64 million passengers per year. In the meantime, AdR remains in discussion with ENAC about FCO's €5.3 billion long-term development plan, which includes constructing new terminal infrastructure and a fourth runway, with airport capacity expanding up to a maximum of 100 million passenger per year. We include the first tranches of this uncommitted expansion project in our capex forecasts since we estimate traffic will reach about 94%-95% of existing airport capacity by 2029, assuming the positive growth trend at FCO persists. Nevertheless, we understand related capex will be modular, thus providing management some flexibility to adjust it against unexpected downturns in traffic trends. Finally, given the current interest rate environment, we expect the additional debt raised over 2025-2027 will lead to an increase in cash interest paid to about €110 million in 2027, from about €46 million in 2024.

Very strong traffic performance at AdR's airports supports our view that Rome remains a highly attractive religious and tourist destination. We now expect traffic at Rome airports will increase by about 9% in 2025, in line with flows recorded during the first two months of the year and supported by traffic expected for the Jubilee. In 2024, AdR outperformed most of its rated

peers, welcoming 53.1 million passengers, which is 7.4% above 2019 levels. We expect this positive trend in traffic to continue, driven by strong growth in the EU and Extra-EU segments, with passenger flows in 2024 being 20% higher than in 2019. We think the ongoing network expansion at FCO will continue to stimulate passenger growth, with AdR adding 30 new routes and six new carriers last year. While Lufthansa's acquisition of a 41% stake in ITA Airways may create new opportunities for the Italian airline, whose main hub is at FCO, we anticipate carrier diversification at AdR will continue to increase in 2025. Notably, EasyJet has been selected as a remedy taker following the ITA-Lufthansa deal and will begin operations at FCO in summer 2025 with three aircraft, offering routes to central Europe, including Belgium, Switzerland, and Germany. We also anticipate management to focus on consolidating North American routes, with about 42 departures per day anticipated on peak days this summer.

Overall, we expect non-aviation revenues to increase by 11% and 7% in 2025 and 2026, respectively, and the S&P Global Ratings-adjusted EBITDA margin to decline slightly to 58%-59%, compared with our previous expectations. We think improved traffic performance will have a positive impact on non-aviation revenues, particularly in retail activities, with new food spaces expected to open this year. This adds to the nine luxury brands that opened in the non-Schengen area in 2024, which we expect will further bolster average spending per passenger from this year. Despite the improved traffic outlook in our forecast, we estimate the adjusted EBITDA margin will be about 58%-59% over the next three years, which is somewhat lower than our previous base case and still below pre-pandemic levels of 61%. While the 2024-2028 regulatory charges approved for FCO and Ciampino (CIA) support AdR’s profitability, higher operating expenditures will weigh on EBITDA margins. This is due to the higher level of services required by increased traffic volumes, completing the South Fiumicino project, and the anticipated increase in workforce to support FCO's long-term development plan, among others.

Outlook

The outlook on AdR is linked to that on its parent Mundys (BB+/Stable/B), given the one-notch differential we reflect in our rating on AdR. The 'a-' SACP assessment reflects AdR's supportive regulatory framework and the airport's appeal, particularly for origin and destination leisure traffic, as evidenced by the significant traffic increase recorded since summer 2023. We expect FFO to debt will be about 18%-19% over 2025-2027.

Downside scenario

We could take a negative rating action on AdR if we take a negative rating action on Mundys. We could revise down by one notch our SACP on AdR if financial performance deteriorates, specifically if FFO to debt is sustainably below 15%. This could happen in the short term if traffic growth slows significantly or if AdR's investments and dividend distributions are greater than we assume in our base case. A downward SACP revision would not affect the ratings, however, as long as we continue to think AdR remains somewhat protected from negative influences from its parent.

Upside scenario

We could take a positive rating action on AdR if we take a positive rating action on Mundys. We could revise the SACP to 'a' from 'a-' if the company improves its FFO to debt to sustainably above 20%, although this would not affect the rating. This could happen for instance if the

company records higher traffic than we anticipate, supported by the ongoing network expansion trend at Rome's airports.

Company Description

AdR is Italy's largest airport operator, with an exclusive concession to operate the two Rome-based airports, FCO and CIA, under a dual-till regulatory asset base model until June 30, 2046. In 2024, traffic reached 49.2 million for FCO and 3.9 million for CIA, implying traffic growth of about 7.5% compared with 2019. The company is almost fully owned by Italian infrastructure company Mundys (99.4%), to which we link the rating, with minority shares held by local municipalities and several minor individual shareholders.

Our Base-Case Scenario

Assumptions

- Passenger traffic to grow by about 9.0% in 2025, followed by annual growth of about 2.5%-3.0% from 2026.
- Non-aviation revenues to grow by 11% in 2025, supported by traffic growth. From 2026 we assume an annual growth of about 6%-7%, mainly reflecting new commercial space openings and traffic growth.
- The S&P Global Ratings-adjusted EBITDA margin to increase to 58%-59% over the next three years, from 56.6% in 2024, which is still somewhat lower than pre-pandemic levels (about 61%).
- Total capex of about €1.4 billion over the next three years--of which €410 million in 2025 and €520 million in 2026. This includes some uncommitted capex.
- Total distributions to shareholders at about €910 million in 2025, of which €748 million as distribution of equity reserves and €161 million is a balance payment on 2024's net income. The balance payment on 2024 net income is subject to the bond issuance envisaged for the coming months. We assume a 100% payout policy of yearly net income from 2026.

Key metrics

Aeroporti di Roma SpA--Forecast summary

Period ending	Dec-31-2022a	Dec-31-2023a	Dec-31-2024a	Dec-31-2025f	Dec-31-2026e	Dec-31-2027f	Dec-31-2028f	Dec-31-2029f
(Mil. EUR)								
Revenue	664	889	1,081	1,231	1,286	1,354	1,427	1,476
EBITDA (reported)	244	437	586	700	724	777	834	869
Plus/(less): Other	50	19	26	26	26	26	26	26
EBITDA	294	457	612	726	750	803	860	895
Less: Cash interest paid	(54)	--	(46)	(61)	(89)	(107)	(124)	(138)
Less: Cash taxes paid	58	(17)	(91)	(170)	(210)	(170)	(170)	(170)
Funds from operations (FFO)	297	440	476	495	451	527	566	587
Cash flow from operations (CFO)	605	475	558	524	480	554	595	615
Capital expenditure (capex)	215	327	343	413	522	471	500	500

Aeroporti di Roma SpA--Forecast summary

Free operating cash flow (FOCF)	389	149	215	111	(42)	83	95	115
Dividends	--	82	492	909	290	314	334	351
Discretionary cash flow (DCF)	389	67	(277)	(798)	(332)	(231)	(239)	(236)
Debt (reported)	2,188	2,047	2,013	2,724	3,235	3,172	3,733	3,595
Plus: Lease liabilities debt	3	2	3	3	3	3	3	3
Plus: Pension and other postretirement debt	10	10	9	9	9	9	9	9
Less: Accessible cash and liquid Investments	(1,025)	(909)	(599)	(510)	(688)	(393)	(713)	(337)
Plus/(less): Other	83	--	--	--	--	--	--	--
Debt	1,259	1,151	1,426	2,226	2,559	2,791	3,032	3,270
Cash and short-term investments (reported)	1,025	909	599	510	688	393	713	337
Adjusted ratios								
Debt/EBITDA (x)	4.3	2.5	2.3	3.1	3.4	3.5	3.5	3.7
FFO/debt (%)	23.6	38.2	33.4	22.3	17.6	18.9	18.7	18.0
FFO cash interest coverage (x)	6.5	NM	11.4	9.2	6.0	5.9	5.6	5.3
EBITDA interest coverage (x)	5.6	9.0	11.9	11.9	8.4	7.5	6.9	6.5
Annual revenue growth (%)	25.5	34.0	21.5	13.9	4.5	5.3	5.4	3.5
EBITDA margin (%)	44.3	51.4	56.6	59.0	58.4	59.3	60.3	60.7

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

Liquidity

As result of the deteriorated cash buffer following the equity reserves distribution, we now assess ADR's liquidity as adequate, from strong previously. This is based on our expectation that sources will cover uses by more than 1.2x in the 12 months from Dec. 31, 2024.

AdR's liquidity is supported by its well-established and solid relationship with banks, its high standing in capital markets, and its prudent risk management. We understand the company is now planning to fully repay the temporary drawdown under the RCF (so as to fully replenish the available amount) and restore an adequate cash buffer to support its capex plan via a new bond issuance in the second quarter of this year. Despite this, we expect our liquidity assessment to remain commensurate with our adequate assessment, pending more information about AdR's medium-term capex profile (the FCO development plan).

Principal liquidity sources

- About €600 million in available cash.
- €350 million in available credit lines, expiring in October 2029.
- About €520 million in cash flow from operations under our base case.

Principal liquidity uses

- Capex of about €410 million.
- Debt maturities of about €39 million.
- Equity reserves distributions of €748 million, which took place in February.

Covenants

AdR's loan agreements include financial covenants among the contractual clauses, which are tested semi-annually and could trigger an early redemption. The covenants are included in the Cassa Depositi e Prestiti and European Investment Bank financial loans, with €378 million outstanding as of December 2024. We expect AdR's reported debt to EBITDA and interest coverage ratio to remain below the 4.25x and 3.0x testing thresholds, respectively. During the pandemic, the company secured waivers up to June 2023.

No financial covenant is envisaged under the Euro Medium Term Note program, but there is a cross-default event with the senior unsecured debt. In addition, AdR is required to meet an annuity-based synthetic debt service coverage ratio above 1.20x under its concession agreement.

Environmental, Social, And Governance

We view environmental factors as a negative risk element for the airport sector since decarbonization targets may limit potential traffic growth and increase investment needs. However, AdR compares favorably with some peers that have been hit by new taxes, such as Aeroports de Paris, or restrictions on air traffic management movements, such as those at Royal Schiphol. Noise restrictions at CIA have capped capacity at about 70% of 2019 levels, but this has not significantly affected traffic since passengers have so far been diverted to AdR's largest asset, FCO, which has no such restrictions. To support its decarbonization plan, AdR plans to invest about €250 million over 2024-2028, the majority of which will be allocated to constructing solar farms with an installed capacity of about 56 megawatts, which is expected to meet about 50% of AdR's annual energy demand by 2028.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Strong
Country risk	Intermediate
Industry risk	Low
Competitive position	Strong
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	a-
Diversification/portfolio effect	Neutral/undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate

Rating Component Scores

Component	
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	a-
Group credit profile (GCP)	bb+
Entity status within the group	Highly strategic, insulated (+1 notch from GCP)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Distribution To Mundys SpA From Aeroporti di Roma May Give Parent Resources To Execute On Its Acquisition Strategy, April 7, 2025
- HYPERLINK "https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?ArtObjectId=13102002&ArtRevId=1"European Airports Trundle Along, May 13, 2024
- Industry Credit Outlook 2024: Transportation Infrastructure, Jan. 9, 2024
- Tear Sheet: Aeroporti di Roma SpA, Aug. 1, 2023

Ratings List

Ratings list		
Downgraded		
	To	**From**
Aeroporti di Roma SpA		
Issuer Credit Rating	BBB-/Stable/A-3	BBB/Stable/A-2
Senior Unsecured	BBB-	BBB

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