FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Metro Washington Airports Auth Rev Bonds 'AA-'; Outlook Stable

Thu 12 May, 2022 - 11:19 AM ET

Fitch Ratings - Austin - 12 May 2022: Fitch Ratings has assigned a 'AA-' rating to Metropolitan Washington Airports Authority's (MWAA) approximately $206 million airport system revenue refunding bonds, series 2022A. In addition, Fitch also rates the 'AA-' rating on MWAA's approximately $4.3 billion of parity airport system revenue bonds and its underlying bank bond rating of 'AA-' to the series 2010D bonds. The Rating Outlook is Stable.

RATING RATIONALE

The rating reflects MWAA's very strong credit attributes, including the resilience of its complementary dual-large hub airport system serving the strong and growing District of Columbia air trade service area; well-balanced system-wide carrier mix; capital program progression at both airports; and its stable financial profile. The large debt burden results in a high fixed cost structure; however, MWAA's current airline use and lease agreement (AUL) provides enhanced revenue sharing between airports that has led to a more competitive cost per enplanement (CPE) at IAD in recent years. Leverage is forecast to remain in the 6x-7x range for net debt/cash flow available for debt service (CFADS) through 2026 in Fitch's rating case despite additional borrowing needs.

KEY RATING DRIVERS

STRONG MARKET POSITION - Revenue Risk (Volume): Stronger

MWAA's large traffic base, anchored by a strong underlying economic region and diverse, complementary domestic and international service offerings at DCA and IAD, reached another new peak of 24.3 million enplanements in 2019 prior to coronavirus impacts. DCA is expected to recover more quickly; however, IAD is forecast to grow more rapidly than DCA through the forecast period, following a return to pre-pandemic levels.

United Airlines Inc. (United; B+/Negative) is the lead carrier at IAD with a 74% carrier market share, while American Airlines Group, Inc. (B-/Stable) handles approximately 59% of DCA. On a system wide basis, market share is more diverse, with United having the largest share at 41%. The airport system consistently captures around 60% of the regional air traffic market, with a high proportion of O&D passengers (around 75%) stabilizing the traffic profile.

FAVORABLE RATE SETTING APPROACH - Revenue Risk (Price): Stronger

MWAA's AUL runs through 2024 with a hybrid compensatory model, providing an overall favorable airport system cost recovery approach by bridging significant cost imbalances. Revised terms allow for tiered surplus revenue sharing from DCA to subsidize IAD's substantial costs, which are tied to debt-financed capital investments. The rate setting framework provides for an increased level of hard coverage recovery, coupled with provisions such as extraordinary coverage protection and net revenue sharing with the carriers.

MAJOR CAPITAL NEEDS ADDRESSED - Infrastructure Development/Renewal: Stronger

Both airports are modern facilities in good condition. The prior 15-year $5 billion capital construction program (CCP) focused on IAD, whereas the current $3.3 billion CCP through 2028 is more evenly split between airports. It will be nearly 80% bond funded, but MWAA should have the debt capacity. IAD has benefitted from increased revenue generation following completion of the prior CCP, and Fitch expects the current CCP, including Project Journey, should similarly enhance DCA's revenue generating ability.

LARGELY CONSERVATIVE CAPITAL STRUCTURE - Debt Structure: Stronger

MWAA's debt is all senior lien and fully amortizing, with 96% fixed-rate obligations and 4% synthetically fixed-variable-rate obligations. Covenants and reserve requirements are similar to comparably rated peer airports. Management is proactive with refunding opportunities and $1.7 billion of outstanding debt will be callable through 2027. Greater than 50% of the currently outstanding debt matures within the next 10 years, providing capacity for additional new money borrowings.

FINANCIAL PROFILE

Leverage, measured by net debt/CFADS, returned to below 7x in 2021 and is forecast to fall below 6x by 2026 in Fitch's rating case despite an additional $1.1 billion of planned 2023-2024 issuance. The debt service coverage ratio (DSCR) had improved since 2014 to 2.05x in 2019 given stronger provisions in the current AUL coupled with enplanement growth; however, it is forecast to stabilize in the 1.6x-1.7x range. Liquidity remains strong at 965 days cash (including Western Lands funds).

PEER GROUP

Comparable large-hub, international gateway peers include Los Angeles International Airport (LAX; senior/sub AA/AA-/Stable) and San Francisco International Airport (SFO; A+/Stable). Both airports similarly have stronger volume and price assessments, supporting relatively high debt levels incurred for infrastructure spending. LAX's higher rating reflects its larger, more resilient enplanement base with less carrier concentration, comparatively lower leverage and higher coverage. SFO has stronger pre-coronavirus enplanement trends but slightly higher leverage and a higher CPE. Further, its operational and financial profiles are tied to a single airport whereas MWAA benefits from a dual-airport system.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Additional borrowings and/or operational or financial pressures leading to leverage increasing to and remaining above 8x on a sustained basis;

--Significant or unanticipated changes in the airport system's traffic base or shifts in commitments from leading carriers following a recovery to pre-pandemic enplanement levels.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upward rating migration is unlikely in the near-to-medium term given the authority's leverage and cost profile, combined with the lingering negative impacts of the coronavirus.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

MWAA is anticipated to issue approximately $206 million of airport system revenue refunding bonds Series 2022A to refund $232 million of series 2012A bonds for interest rate savings and to refund the outstanding $300,000 in principal amount of MWAA's revenue revolving loan note, subseries A (AMT). Net present value savings are estimated at around $14 million.

CREDIT UPDATE

MWAA's enplanements continue to rebound, reaching nearly 60% of pre-pandemic levels in 2021 and growing to 86% of 2019 levels for Q1 2022 at DCA and 77% at IAD. Most recently, for March, DCA reached 96% of March 2019 levels and IAD achieved 82%. DCA now has more nonstop destinations than 2019, American has upgauged and increased connecting traffic through Reagan National with the completion of the new north concourse and Project Journey, and air service to domestic and leisure destinations has increased.

Dulles has around the same number of nonstop destinations served as 2019; however, they were able to add new carriers including Allegiant Air, Iberia, and Southern Airways Express. In addition, United has added new international service, additional capacity to Latin American and African markets and continues to use IAD as a connecting mid-Atlantic hub. Overall, MWAA continues to benefit from its complementary dual airport system with a diverse carrier market share and its majority regional market share.

Management has been and continues to be proactive in response to the pandemic. They were able to achieve a 20% reduction to their O&M budget in 2020 and continues to budget prudently going forward. Though DSCR softened in 2020, management was able to reduce airline charges by 20% and preserve much of its financial aid flexibility by only drawing $74 million of CARES Act funds. DSCR rebounded to nearly 2x in 2021 and CPE was carefully managed down to $17.50 from more than $33 in 2020. MWAA only used $171 million of federal relief funds in 2021, leaving them $193 million, of which $124 million is anticipated to be used in 2022. Liquidity remains strong at 965 days cash on hand.

MWAA's CCP through 2028 includes a new project for Dulles - Tier 2 Concourse (East). This will be a 14 gate facility that will replace an outdoor boarding area. The project is estimated to cost around $775 million and takes the CCP total to $3.34 billion, split between $1.5 billion of projects at DCA and $1.8 billion at IAD. Notably, 23% of the funding will come from grants, authority funds and PFC pay-go while 37% (or $1.22 billion) has been funded with prior bonds leaving just 40% of planned future bonds through 2027. Providing additional capacity for issuance is the fact that 50% of the current debt load amortizes within the next 10 years. Positively, the new north concourse is open and Project Journey is complete, both of which should be revenue accretive. Applications have been submitted for Bipartisan Infrastructure Law grant funding and both allocations and competitive funding are anticipated to help fund the CCP.

FINANCIAL ANALYSIS

Fitch Cases

Fitch has reviewed the report of the airport consultant and finds it to be reasonable and largely in line with Fitch's coronavirus rating case described in 'Fitch Revises US Air Traffic Assumptions Upward for Airlines and Airports' (July 2021). This scenario assumes relative to fiscal 2019, a 90% recovery in enplanements in 2022, followed by recovery of 97%, and 99% in 2023 and 2024, respectively, with approximately 2% growth in 2025 and 2026.

Airline payments are driven by cost recovery terms under the rate agreements and adjusted for the application of federal grants, while non-aeronautical revenues are largely driven by fluctuations in passenger traffic. The debt service coverage ratio (DSCR) is no less than 1.6x and averages 1.8x. Cost per enplanement largely ranges from $15-$16. Given the current economic environment and the unlikeliness of a stable operating environment over the near term, Fitch's rating case is also considered the base case.

Fitch also ran a downside scenario with a delayed recovery to 2025. Under this scenario, the DSCRs are slightly less, averaging 1.7x and CPE is marginally higher, averaging less than $1 more.

Under both scenarios, another $1.1 billion of new money bonds is assumed, but leverage remains in the 6x-7x range for 2022-2026.

DATE OF RELEVANT COMMITTEE

18-May-2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Metropolitan Washington Airports Authority (DC)				
Metropolitan Washington Airports Authority (DC) /Airport Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Jeffrey Lack
Director

Primary Rating Analyst
+1 312 368 3171
jeffrey.lack@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

Jim Code
Senior Analyst
Secondary Rating Analyst
+1 312 368 3194
jim.code@fitchratings.com

Chad Lewis
Senior Director
Committee Chairperson

chad.lewis@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria -- Effective March 24, 2020 to Aug. 23, 2021 (pub. 24 Mar 2020) (including rating assumption sensitivity)

Airports Rating Criteria (pub. 22 Oct 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.3.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Metropolitan Washington Airports Authority (DC)	EU Endorsed, UK Endorsed

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