FitchRatings

RATING ACTION COMMENTARY

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

Thu 20 May, 2021 - 9:07 AM ET

Fitch Ratings - Austin - 20 May 2021: Fitch Ratings has assigned a 'AA-' rating to Metropolitan Washington Airports Authority's (MWAA) approximately $551 million airport system revenue and refunding bonds, series 2021AB. In addition, Fitch has affirmed the 'AA-' rating on MWAA's approximately $4.2 billion of parity airport system revenue bonds and its underlying bank bond rating of 'AA-' to the series 2010D bonds. The Rating Outlook has been revised to Stable from Negative.

The revision to a Stable Outlook reflects MWAA's prudent management throughout the pandemic leading to retained financial flexibility, preserving federal grants and minimizing volatility in rates & charges to carriers. MWAA is experiencing more rapid traffic recovery since March (which should be aided by the vaccine rollout, a strong MSA, and a diverse carrier mix), contributing to a continued rebound in non-airline revenues. The Outlook revision also reflects MWAA's progression of its capital program, including new money borrowing, with limited impact to leverage and financial metrics that return to pre-pandemic forecast levels in Fitch's rating case.

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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; recently completed capital program at Dulles International Airport (IAD), with a new, smaller program at Reagan National Airport (DCA) to accommodate projected passenger demand; and 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 spiked in 2020 but is forecast to return to approximately 5x-6x net debt/cash flow available for debt service (CFADS) for 2022-2025 in Fitch's coronavirus rating case.

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. Pre-pandemic, IAD was forecast to increase more rapidly than DCA through 2024 including higher growth for international traffic; however, the coronavirus pandemic is expected to stifle MWAA's traffic base for at least the next several years. United Airlines Inc. (United; B+/Stable) is the lead carrier at IAD with a 72% carrier market share, while American Airlines Group, Inc. (B-/Negative) handles approximately 52% 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 (75% in 2020) 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. Proactive management has allowed the authority to contain pre-pandemic airline costs and outperform both budget and original airport consultant forecasts for CPE while

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maintaining stable to improving coverage levels, though CPE will likely be pressured in the near-term given coronavirus effects.

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 $2.4 billion CCP through 2028 is predominantly for DCA. It will be approximately 80% bond funded, but DCA should have the debt capacity. IAD has benefitted from increased revenue generation following completion of the prior CCP, and Fitch expects the new CCP should similarly enhance DCA's revenue generating ability. Project Journey at DCA is more than 70% complete and remains on time and budget for a 2021 completion. MWAA continues to review its capital plan and over $230 million of project expenditures could be deferred without impacting Project Journey.

LARGELY CONSERVATIVE CAPITAL STRUCTURE - Debt Structure: Stronger

MWAA's debt is all senior lien and fully amortizing, with 84% fixed-rate obligations, 12% synthetically fixed-variable-rate obligations, and 4% unhedged variable-rate debt. The authority's limited variable rate exposure is partially mitigated by its large unrestricted cash position. Covenants and reserve requirements are similar to comparably rated peer airports. Management is proactive with refunding opportunities and $1.6 billion of outstanding debt will be callable through 2026. Greater than 50% of the currently outstanding debt matures within the next 10 years, providing capacity for additional new money borrowings.

FINANCIAL PROFILE

Leverage spiked in 2020 to 11.5x net debt/CFADS but is forecast to return to and remain in the 5x-6x range for 2022-2025 in Fitch's coronavirus rating case. The debt service coverage ratio (DSCR) improved since 2014 to 2.05x in 2019 given stronger provisions in the current AUL coupled with recent enplanement growth; however, it softened to 1.4x in 2020 from pandemic pressures and is forecast to stabilize in the 1.8x range. Liquidity remains strong at around 1,000 days cash in 2020 (including Western Lands funds).

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PEER GROUP

Comparable large-hub, international gateway peers include Los Angeles International Airport (LAX; senior/sub AA/AA-/Negative) and San Francisco International Airport (SFO; A+/Negative). Both airports 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 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.

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

--Operational or financial pressures leading to leverage increasing to and remaining above 8x on a sustained basis;

--Additional borrowing in excess of $1 billion for the current capital program that materially affects financial flexibility;

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

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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 $551 million of airport system revenue and refunding bonds Series 2021AB to fund $308 million of new money and reserves for their capital program and the remainder to current refund series 2003D-1, 2010C-1, and 2011BCD bonds for interest rate savings. Net present value savings are estimated at around $34 million and largely front-loaded in 2021-2023. Depending on market conditions, an additional $220 million may be issued to unwind portions of outstanding swaps and refund portions of the variable rate series 2009D, 2010C-2, 2010D, and 2011A at a neutral cost.

CREDIT UPDATE

MWAA's enplanements were down 68% to 7.85 million in 2020 due to pandemic impacts, but have begun a noticeable rebound in late 1Q2021 and into 2Q2021, with the expectation of continued improvement as vaccine rollout continues and passenger confidence grows. On a preliminary basis, MWAA's enplanements reached more than 40% of 2019 levels and TSA screenings for May thus far indicate record numbers for the pandemic period signaling further recovery. United and American are also offering nearly as many nonstop destinations as they were in 2019 and are expected to surpass the number of offerings from 2019 later this year. 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. This should leave MWAA with around $363 million of federal aid to apply over 2021-2024 to smooth out rates and charges to the airlines while preserving a strong financial profile. MWAA has provided and is providing tenant relief, including temporary MAG waivers, but the percentage of rent has increased

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and will move towards full collection as the phased-in concession reopening plan progresses. This should boost non-airlines revenues, which are already seeing positive momentum. Liquidity remains strong at around 1,000 days cash on hand.

MWAA's CCP through 2028 stands at $2.4 billion and is progressing on time and budget. The new north concourse is open and Project Journey is expected to be complete this year. Positively, these projects should be revenue accretive. In total, the CCP is anticipated to be 80% funding with debt, of which less than $1 billion remains to be issued following the series 2021AB bonds. Providing additional capacity for issuance is the fact that 50% of the current debt load amortizes within the next 10 years.

FINANCIAL ANALYSIS

Fitch Cases

Given the current economic environment due to the coronavirus and the unlikeliness of a stable operating environment over the near term, Fitch's rating case is also considered the base case. Fitch's rating case assumes, relative to fiscal 2019, a 41% decline in enplanements in 2021, followed by declines of 20%, and 10% in 2022 and 2023, respectively, before returning to 2019 levels in 2024 with 2% growth in 2025. 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. Under Fitch's rating case, the debt service coverage ratio (DSCR) is no less than and averages 1.8x. Cost per enplanement migrates down to $16.49 by 2025.

Fitch also ran a severe downside case with declines relative to 2019 of 61%, 45%, 25%, and 10% in 2021- 2024 respectively with full recovery in fiscal 2025. Under this scenario, the DSCRs are no less than 1.3x and average 1.6x and CPE is marginally higher peaking at $26 in 2022.

Under both scenarios, another $610 million of new money bonds is assumed, but leverage remains in the 5x-6x range for 2022-2025.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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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 Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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

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