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Ratings

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Research Update:

Airport Operator daa PLC Upgraded To 'A' On Expected Strong Operational And Financial Performance; Outlook Stable

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Rating Action Overview

- Airport operator daa PLC is expected to continue increasing its nonaeronautical revenue (both retail and nonretail), based on expected passenger spending and the company's ongoing focus on the segment. Although passenger and airline demand at Dublin airport is strong, capacity is subject to a pending planning decision and a potential cap on the number of night-time flights. If passenger numbers grow more slowly or are lower than predicted, we think these could be mitigated by airport charges adjustments starting 2027.
- We therefore expect daa to maintain strong credit metrics in the coming years, even though it is undertaking a capital investment plan that will take a decade to complete. The size of the plan and the complexity of keeping it on budget and on time will limit rating upside, beyond today's action.
- We raised to 'A/A-1' from 'A-/A-2' our issuer credit ratings on daa and to 'A' from 'A-' our issue credit ratings on its debt.
- The stable outlook indicates that we expect funds from operations (FFO) to debt at daa to remain comfortably and sustainably above 20%, even as the company invests to increase capacity and enhance existing facilities at Dublin airport. We expect operational performance to be strong and that airport charges will support cash flow stability.

Rating Action Rationale

S&P Global Ratings expects both retail and nonretail revenue at daa to increase further, based on expected passenger spending and the company's focus on developing this segment. In 2023, nonaeronautical revenue in Ireland rose by 27% to €463 million from €365 million in 2022. This was well above the €395 million we had expected for 2023 and resulted in FFO to debt strengthening to 36.2% in 2023.

Revenue from the nonretail segment was boosted by a combination of factors in 2023, and we expect the new levels to be sustainable going forward. The strong performance was driven by:

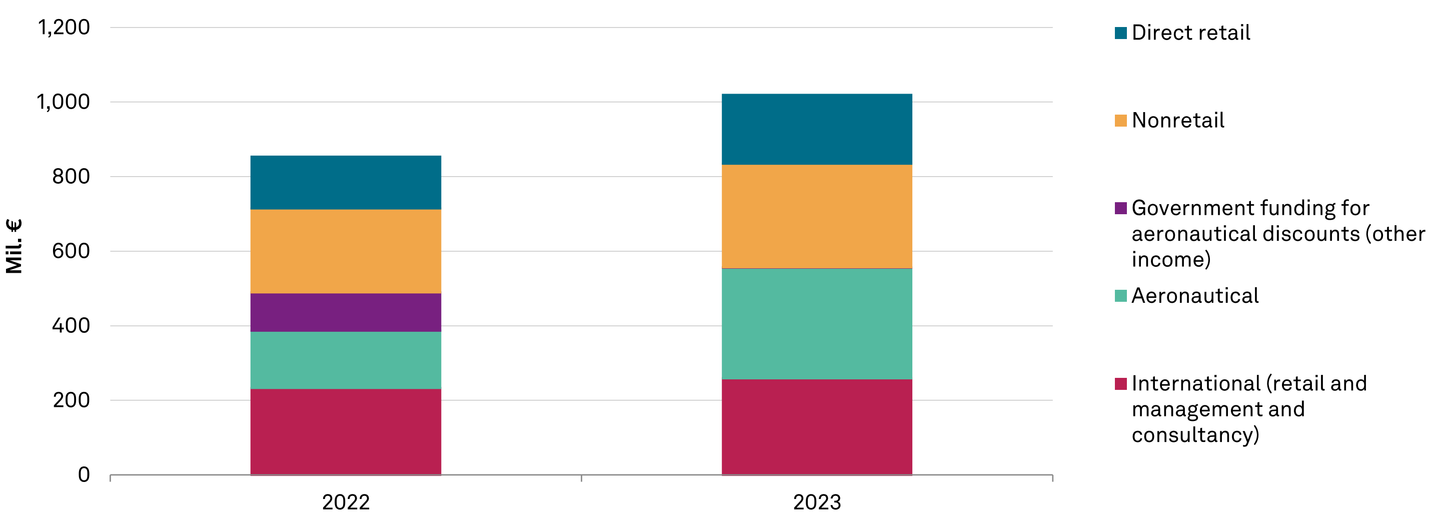
- Improved terms on some concession contracts that were due to expire and were retendered;
- Higher revenue from car parking, food and beverage, and indirect retail concessions; and
- An increased contribution from high-margin products, such as lounge services for airlines and passengers or fast-tracking passengers through security queues.

The nonretail segment represented 54% of the overall reported EBITDA generated in 2023 and reported an EBITDA margin of 78% in 2023, demonstrating that its operating costs are low. Better performance in this segment helped improve our forecast financial metrics from 2024 onward, compared with the forecast we published on June 27, 2023 in "Research Update: daa PLC Outlook Revised To Stable On Recovering Air Traffic And Financial Performance; 'A-' Ratings Affirmed."

Revenue from the direct retail segment also increased because average revenue per passenger rose faster than inflation. Passengers travelling to and from the U.K. have been spending more at Irish airports after the U.K. introduced new duty-free rules after Brexit. Retail at daa's Dublin site represented 28% of overall EBITDA and reported an EBITDA margin of 47% in 2023.

Chart 1

Retail and nonretail revenue at daa PLC rose strongly in 2023



Source: S&P Global Ratings.

Our rating action indicates that we expect FFO to debt at daa to remain sustainably above 20% in the short-to-medium term. Our base case could be affected by uncertainties regarding when the planning authority will respond to daa's request to increase capacity at Dublin airport; whether daa will execute its capex program on time and on budget; whether the number of night-time flights will be capped; and the finalization of daa's new dividend policy. Our sensitivity analysis takes each of these uncertainties into account on a stand-alone basis and in our view, daa should still be able to achieve and sustain FFO to debt above 20% in the short-to-medium term. Therefore, we revised our stand-alone credit profile (SACP) to 'a-' from 'bbb+', in line with the pre-pandemic level.

At the end of 2023, daa submitted a new planning application to increase Dublin airport's passenger capacity to 40 million a year. We understand the number of passengers that can travel through terminals 1 and 2 of Dublin airport each year will remain constrained at 32 million until a new planning application is approved. Our traffic expectations incorporate our assumption that a decision will be made during 2026. The 32 million figure was established in 2007 and was largely based on the limitations of the road infrastructure used to travel to and from the airport.

During the first six months of 2024, average traffic at daa's two Irish airports was 4.6% above the 2023 level in Dublin and 12.7% above the 2023 level in Cork, demonstrating strong demand from both passengers and airlines. Given the traffic to date and the air traffic slots allocated for November and December 2024, we consider it possible that passenger numbers at Dublin airport could exceed the 32 million cap in 2024. In 2023, 31.9 million passengers passed through the airport. Our traffic assumptions are based on our expectation that passenger numbers will be brought in line with the cap again in 2025. We understand that this will be achieved through the slot coordination decisions--that is, by extending the parameters announced for October 2024 to March 2025 (the 2024/2025 winter season) to the following summer 2025 season. The strategic location of Cork airport has proved attractive in developing new routes, which has been positive for traffic.

The €1.9 billion that daa plans to invest in a large capex program over 2024-2028 will weigh on its credit metrics. The amount, combined with the difficulty of executing on construction projects in a live operations environment while maintaining the planned budget and timing, limits further rating upside. The program's aim is to enhance existing airport facilities and expand them--€0.5 billion of the investment in the period to 2028 is linked to the outcome of the planning application in which daa requested an increase in capacity at Dublin airport. The program includes building and enhancing additional aircraft and passenger facilities and new gates and stands, as well as developing updated security and baggage systems. Other investments include a new underpass to allow safe access to the airfield, an updated taxiway, and improved car parking facilities, as well as investments linked to sustainability. As a result of the capex program, we expect FFO to debt to decrease to 26.9% in 2028, from 36.2% in 2023. The capex plan was postponed due to the pandemic and, although a further €1.4 billion in investments will take place from 2029-2032, we still consider that daa will have headroom in its credit metrics and that, over the medium term, it will be able to sustain its metrics at a level commensurate with the current rating.

Capex is compensated for by increasing airport charges every year and over the long term. For certain major projects, charges increase as per the recognized spending--80% when they are started and an additional 20% when they are completed. We expect that daa will use debt to fund only part of the €1.9 billion in capex and that its strong liquidity position and cash flow generation will mitigate the expected increase in expenditure. Thus, for example, the starting adjusted debt balance was €816 million (as of 2023, and after the increase in debt incurred during the pandemic) but is forecast to rise only to €1,300 million by 2028. That said, we forecast negative free operating cash flow (FOCF) generation from next year. This, combined with the difficulty of executing a large capex plan on budget and on time, is incorporated into our rating through the comparable rating analysis, which is negative. In our view, these factors will limit further rating upside.

New charges will be set for the regulatory period starting January 2027. In our view, these will make cash flows more stable and could mitigate the risk that a delay to the planning decision or a cap on night-time flights could weigh on passenger numbers at Dublin airport. The charges from 2027 will be based on the new passenger forecast and the expected future commercial revenue, given the single-till regulatory framework. At the same time, the charges will remunerate daa for the cost of capital and its capex projects. Any changes to the predicted cost of larger capex projects will be included in the calculation of charges when a new regulatory period commences (that is, in 2027 or 2032). Until new charges are set, daa will receive the full benefit of any overperformance it achieves against the expectations set by the regulator when it determined charges for the current regulatory period--this includes the stronger EBITDA it recorded in 2023 and is expected to record in 2024. Conversely, if it had underperformed, daa would absorb the full downside. Under the regulatory framework, no retroactive compensation is expected in 2027. We expect a decision on charges for the new regulatory period to be made in the third or fourth quarter of 2026.

The decision as to whether to cap the number of night-time flights at Dublin airport has yet to be made. If the outcome is very unfavorable, the airport could have up to 3 million fewer passengers. We view such an event as financially manageable at the current rating level, given the headroom in the credit metrics. Part of the loss could be offset if some of the night-time passengers are accommodated on day-time flights instead; in addition, overall passenger numbers would be below the 32 million cap and hence day-time traffic could be allowed to increase. Although our base case does not include an unfavorable decision in this matter, the airport's regulatory charges could also help offset the impact, if needed. We incorporate this in our assessment of daa's strong business risk profile.

Our base case assumes that dividend distributions will resume following negotiations between daa and the shareholder on the new dividend policy. In 2024, daa paid a dividend of €31 million and, in the coming months, we expect it to agree a new dividend policy that will apply to future years. In light of the planned capex project, we assume daa will maintain prudent risk management. Our base case incorporates a dividend payment of 30% of the previous year's net income after tax, which is in line with the payout ratio before COVID-19 and the company's track record.

Outlook

The stable outlook on the long-term issuer credit rating reflects our expectation that FFO to debt will remain comfortably and sustainably above 20% while daa invests as planned to increase capacity and enhance existing airport facilities at Dublin airport. The outlook also indicates that we expect operational performance to be strong and that airport charges from 2027 will act as a mitigant should passenger numbers at Dublin airport grow more slowly or decrease--either because the decision on the capacity expansion has been delayed or because the number of night-time flights have been capped.

Downside scenario

Given that we rate Ireland at 'AA', we would have to lower daa's SACP to 'bbb+' from the current 'a-' to trigger a one-notch downgrade of daa. This could occur if we expected FFO to debt to remain below 20% for a prolonged period due to a combination of the following:

- Implementation of a cap on the number of night-time flights--this could affect passenger numbers and financial metrics, if not accounted for in the airport charges for the next regulatory period;
- After the new dividend policy is negotiated with the government, the resulting dividends cause a significant cash outflow for the company;
- Commercial spending per passenger falls below the level we currently anticipate, so that nonaeronautical revenue in Ireland or abroad is lower; or
- Cost overruns affect the capex plan and are significant enough to depress credit metrics (even if charges are likely to be revised in the next regulatory period).

In addition, if EBITDA margins fall below 30%, we could revise our view of business risk down to satisfactory, resulting in a downgrade.

All else being equal, a one-notch downgrade of Ireland (AA/Stable/A-1+) would not result in a negative rating action on daa.

Upside scenario

We see an upgrade as unlikely in the next two years because daa has to make progress on executing its large capex plan while keeping it on budget and on time, and managing both construction and operations at Dublin airport. An upgrade would depend on daa demonstrating that it can consistently execute on its capex plan while achieving FOCF that is significantly less negative.

All else being equal, a one-notch upgrade of Ireland would not result in a one-notch upgrade of daa.

Performance Update

EBITDA in 2023 increased by 32% from 2022 and now exceeds the pre-pandemic level. The overall nonaeronautical, passenger-related gross margin increased to €8.87 in 2023, from €8.15 in 2022 and from €6.50 in 2019. The higher yield contributed to the recovery of adjusted EBITDA, to €352 million in 2023, from €266 million in 2022 and €321.3 in 2019.

On the aeronautical side, daa's passenger numbers recovered more quickly after the pandemic than any of our other European rated airports because Dublin is the main connectivity hub for the Irish island. During the first six months of 2024, traffic at Dublin airport was, on average, 6.3% above the 2019 level. Although the increase in remote working caused a reduction in business travel after the pandemic, this did not significantly affect daa because 48% of its total traffic in 2023 was for leisure and 39% was for visiting friends and relatives etc. The overall reported EBITDA margin for the aeronautical segment at Dublin airport was 26%, which represented just 5% of the reported EBITDA generated in 2023 because most airport costs in Ireland are allocated to this segment. Nevertheless, simply having more passengers in the airport contributes to the performance of the nonaeronautical segments. During 2023, 36.3 million passengers travelled through Dublin and Cork airports, up from 30.3 million in 2022.

We expect a decision regarding the potential cap on the number of night-time flights to be made in the coming months. Dublin's North Runway started operating in 2022. In July 2023, Fingal County Council issued an enforcement notice requiring daa to comply with the planning conditions that had been established in 2007 within six weeks. These conditions capped at 65 the number of flights that could take off from or land at the airport between 11 p.m. and 7 a.m. After daa challenged the validity of the enforcement notice, the High Court put a temporary hold on it, pending assessment of its validity. The assessment is expected to be completed in the coming months. Fingal County Council had previously issued a planning decision that incorporated the findings of the Aircraft Noise Competent Authority that 1) the cap on night-time flights should be replaced by a noise quota system, which would promote the use of quieter aircraft, and 2) the period defined as night-time should be amended to between midnight and 5:59 a.m. We understand that local residents appealed the decision and that the planning appeals body, An Bord Pleanála, will make its determination on the matter in the coming months.

Company Description

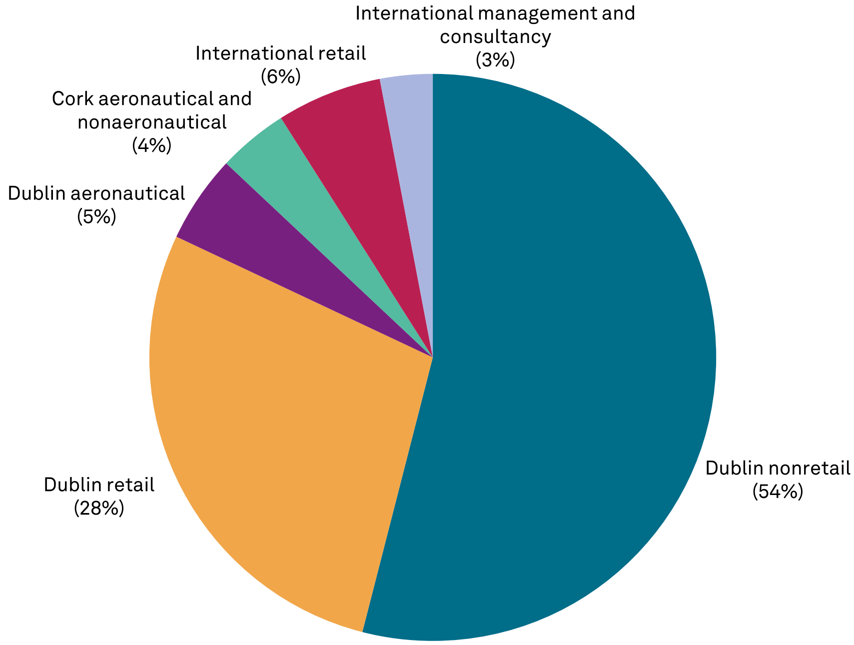
Airport operator daa is a 100% state-owned company that is financed and managed independently of the government. It operates two airports in Ireland--Dublin and Cork--and also generates revenue from related activities in these locations, such as retail and managing car parks. In 2023, Dublin and Cork airports registered 36.3 million passengers and generated 90% of daa's reported EBITDA. Of the reported EBITDA, 5% was generated by the aeronautical segment in Dublin, 28% by the direct retail segment in Dublin, 54% by the nonretail segment in Dublin, and 4% by Cork airport.

Dublin airport is regulated based on a single-till approach, whereby the airport's costs and investments are covered by both aeronautical charges and commercial revenue. The current regulatory period runs to December 2026 from January 2023. Dublin airport's next regulatory period will commence in January 2027 and last to December 2031. Cork airport is unregulated.

The operator generated 6% of its reported EBITDA in 2023 from the airport retail businesses it operates in 14 other countries; a further 3% came from international airport management, operations, maintenance, and consultancy. The operator also holds equity stakes and has joint ventures in other airports, which include a 20% stake in Dusseldorf airport in Germany and 11% stakes in Paphos and Larnaca airports in Cyprus. If dividends are paid on these stakes, we add them to our adjusted EBITDA. Ireland remains the group's main strategic focus, in contrast to some of its European peers, which have recently undertaken investments abroad.

Chart 2

Nonretail earnings at Dublin airport contribute over half of daa PLC's reported EBITDA



Source: S&P Global Ratings.

Our Base-Case Scenario

Assumptions

- Aeronautical revenue in Ireland to be in line with traffic performance and nominal charges.
- For 2024, an increase of 6% in passenger traffic at Cork airport and 3% at Dublin airport (based on traffic recorded for the year to date); thereafter, traffic at Cork to increase in line with GDP in Ireland of 2.2% in 2025%, 2% in 2026, and 2.2% thereafter. Traffic at Dublin airport for 2025 and 2026 to be roughly in line with the 2023 level, based on the current capacity limit. After the maximum capacity has increased, traffic at Dublin to increase by 3% a year in 2027 and 2028, slightly outpacing Ireland's GDP because of the constrained growth in 2025 and 2026.
- Nominal charges after accounting for the remuneration of capex, indexation, and our expectation for the next regulatory period of €9.2-€10.1 per passenger for 2024-2028. We index charges based on our forecast that the Irish consumer price index (CPI) will be 2.3% in 2024, 2.1% in 2025, 1.9% in 2026, and 1.8% thereafter.
- Nonaeronautical revenue (including retail and nonretail businesses in Ireland); retail abroad; and operations, management, and consultancy abroad, to increase by 1.1% in 2024; 0.5% in

2025; 1.8% in 2026; 4.6% in 2027; and 3.3% in 2028.

- Dividends received from equity method investees to average €20 million a year for 2024-2028.
- Costs to increase by 2% in 2024; thereafter to increase in line with the CPI of the previous year. Wages to increase in line with the company's expectations.
- Working capital outflow of €5 million a year.
- Reported capex of €240 million in 2024, €372 million in 2025, €440 million in 2026, €463 million in 2027, and €409 million in 2028. Investment will be only partly debt-funded through a new issuance, given the company's strong liquidity position and its cash flow generation.
- Dividend policy to be agreed with the shareholder in the upcoming months. Our base case incorporates the €31 million dividend in 2024; thereafter, it assumes a dividend of 30% of the net income for the previous year.

Key metrics

daa PLC--Forecast summary

	--Fiscal year ended Dec. 31--								
(Mil. €)	**2020a**	**2021a**	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**	**2027f**	**2028f**
Revenue	291	324	752	1,018	1,073	1,080	1,118	1,168	1,205
EBITDA (reported)	(133)	23	253	330	364	350	367	397	415
Plus: Operating lease adjustment (OLA) rent	2	1	1	1	1	1	1	1	1
Plus/(less): Other	5	0	11	19	20	25	10	15	20
EBITDA	(126)	25	266	350	385	376	378	413	436
Less: Cash interest paid	(23)	(36)	(35)	(29)	(30)	(29)	(37)	(45)	(49)
Less: Cash taxes paid	12	7	(4)	(25)	(42)	(38)	(35)	(37)	(37)
Funds from operations (FFO)	(137)	(5)	227	296	314	309	306	332	350
Capital expenditure (capex)	266	193	152	180	238	370	438	461	407
Free operating cash flow (FOCF)	(333)	(60)	(5)	36	87	(51)	(121)	(119)	(50)
Dividends	1	1	3	6	31	54	50	45	48
Discretionary cash flow (DCF)	(334)	(61)	(8)	30	56	(106)	(171)	(164)	(98)
Debt (reported)	1,568	1,692	1,656	1,619	1,586	1,544	1,939	1,884	1,829
Plus: Lease liabilities debt	5	4	4	3	3	3	3	3	3
Plus: Pension and other postretirement debt	4	2	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(785)	(857)	(816)	(805)	(828)	(680)	(903)	(684)	(530)
Debt	791	841	844	816	761	868	1,039	1,204	1,302
Adjusted ratios									
Debt/EBITDA (x)	(6.3)	33.6	3.2	2.3	2.0	2.3	2.8	2.9	3.0
FFO/debt (%)	(17.3)	(0.5)	26.8	36.2	41.2	35.6	29.4	27.6	26.9
FOCF/debt (%)	(42.1)	(7.1)	(0.6)	4.4	11.4	(5.9)	(11.7)	(9.9)	(3.8)
EBITDA margin (%)	(43.4)	7.7	35.3	34.3	35.9	34.8	33.8	35.4	36.2

All figures include S&P Global Ratings adjustments' unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view daa's liquidity as strong, supported by our expectation that sources of cash will exceed uses even if forecast EBITDA declines by 30%. In our view, the company exercises prudent risk management and the debt documents remain favorable, with no covenant requirements, other than a change of control clause if the government owns less than 85% of daa.

We estimate that sources of liquidity in the 12 months to March 2025 will exceed uses by more than 1.5x, and that liquidity coverage in the following 12 months will be more than 1.0x. There are no large maturities in the short-to-medium term, with the first bullet debt repayment in 2028.

We estimate the following liquidity sources for the 12 months to March 31, 2025:

- Unrestricted cash of €770.2 million;
- €450 million available under a committed revolving credit facility (RCF) due in March 2027; and
- Cash FFO of €330.2 million under our base-case scenario.

We estimate the following major liquidity uses for the same period:

- Debt maturities of about €31.7 million;
- Expected capex of about €273 million;
- Estimated working capital outflow of about €5 million; and
- Distributions of €31 million.

Environmental, Social, And Governance

In our view, social factors are a negative element of risk for daa. The key risk is that complaints from local communities about noise pollution could prompt the imposition of a cap on the number of night-time flights, based on the planning conditions set out in 2007. The loss of passengers could be partially offset by adjusting airport charges starting 2027, and by moving some of the traffic to the day time.

In addition, we consider that airports are negatively exposed to health and safety considerations, exemplified by the traffic-related disruption that occurred during the pandemic and the related financial impact. That said, daa's passenger numbers recovered more quickly than any of its European rated peers after the pandemic. In the first six months of 2024, traffic was 6.3% above the 2019 level at Dublin airport, and 20.5% above the 2019 level at Cork.

We also view environmental factors as a negative element of risk for the airport sector because decarbonization targets could curb traffic growth and increase investment needs. In this respect, daa compares favorably with some peers that have been hit by new taxes, such as Aeroport de Paris, or restrictions to air traffic management movements, such as Royal Schiphol.

Issue Ratings - Subordination Risk Analysis

Capital structure

DAA Finance PLC, daa's financing subsidiary, holds the group's financial debt, which includes

€550 million of unsecured notes due in 2028 and €500 million due in 2032. This debt is guaranteed by daa. The remainder of the debt comprises bank loans.

Analytical conclusions

The issue ratings on the €1,050 million of unsecured debt issued by DAA Finance PLC and the €450 million RCF available to both DAA Finance and daa mirror the long-term issuer credit rating on daa. This is because there are no prior-ranking liabilities and DAA Finance's debt benefits from a parental guarantee.

Ratings Score Snapshot

Issuer Credit Rating	**A/Stable/A-1**
Business risk:	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk:	Modest
Cash flow/leverage	Modest
Anchor	a
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	a-
Group credit profile	a-
Related government rating	AA
Likelihood of government support	Moderately high (+1 notch from SACP)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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

- European Airports Trundle Along, May 13, 2024
- Issuer Ranking: EMEA Transportation Infrastructure Companies, Feb. 28, 2024
- Industry Credit Outlook 2024: Transportation Infrastructure, Jan. 9, 2024
- Research Update: daa PLC Outlook Revised To Stable On Recovering Air Traffic And Financial Performance; 'A-' Ratings Affirmed, June 27, 2023

Ratings List

Upgraded

	To	From
daa PLC		
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
Senior Unsecured	A	A-
daa Finance PLC		
Senior Unsecured	A	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.