FitchRatings

Fitch Affirms Dallas-Fort Worth Airport Joint Revenue Bonds at 'A'; Outlook Stable

Fitch Ratings-New York-10 September 2015: Fitch Ratings has affirmed its 'A' rating to approximately $6.3 billion in outstanding joint improvement revenue bonds, issued by the cities of Dallas and Fort Worth, Texas for Dallas - Fort Worth International Airport (DFW). The Rating Outlook is Stable.

RATING RATIONALE

The rating reflects the strong demand for air travel in an expanding market, the strategic location of Dallas-Ft Worth to serve as a hub, stability from the recent American Airlines-US Airways merger, and coverage metrics that remain constant. The high degree of single-carrier exposure and the capital program which focuses on terminal redevelopment, leading to a sizable increase in airport borrowings in recent years, constrain the rating. Operating characteristics and leverage metrics are comparable to other large-hub 'A' category airports.

KEY RATING DRIVERS

Revenue Risk - Volume: Midrange
SIZABLE TRAFFIC BASE WITH CONCENTRATION AND CONNECTING EXPOSURES: DFW is located in a strong primary market area that generates strong demand for air service. DFW has a base of 31.4 million total enplanements, of which 13.5 million are categorized as origination/destination. Further, DFW's favorable central geographic location provides for a well-balanced traffic profile for both domestic and international passengers. Neither the merger of DFW's leading carrier, American Airlines with US Airways (85% of combined enplanements) nor the recent expiration of the Wright Amendment at nearby Love Field have adversely impacted operations.

Revenue Risk - Price: Stronger
STRONG RATE SETTING MECHANISM: The current airline use agreement (which runs through 2020) allows for timely recovery of costs within all airline cost centers. The agreement also provides for adequate cash flow generation to meet all funding requirements under the bond documents as well as funding for renewal and replacement. Airline costs are currently low for a large-hub airport at $7.53. However, they will steadily increase over the next five years as airport capital spending is funded, even under conditions of traffic growth.

Infrastructure Development and Renewal: Midrange
LARGE SCALE CAPITAL PROGRAM: Much of the $2.7 billion terminal renewal and improvement program as well as another $1.1 billion of airport improvements will be funded by up to $1.7 billion of additional borrowings. While there have been some recent modest upward revisions to the TRIP budget, Fitch currently does not see this development as a material credit concern; however, prudent management of capital spending and borrowings will be critical to credit maintenance.

Debt Structure: Stronger
FIXED RATE, CONSERVATIVE CAPITAL STRUCTURE: All of DFW's long term debt is issued in fixed rate mode with a generally conservative debt amortization profile. Aggregate general airport debt is projected to peak at $7.5 billion by 2020 and approximately 30% - 50% of future debt service is expected to be paid from passenger facility charges (PFC). Debt covenants and reserves are consistent for a large hub airport at its rating level.

STABLE BUT MORE LEVERED FINANCIAL POSITION: Debt service coverage and liquidity metrics have been sound. In fiscal 2014 (ended Sept. 30), debt coverage was 1.52x combined (including the use of rollover coverage funds) with 683 days cash on hand. High leverage of 16x remains a current concern but this credit metric should evolve to 10x or lower over the next three years.

Peers: The airport's peers include other major hub airports with similar market and elevated leverage characteristics, such as Chicago O'Hare ('A-'/Stable) and Miami (rated 'A'/Stable), with DFW having stronger coverage and liquidity metrics and lower airline costs.

RATING SENSITIVITIES

Positive:
Favorable execution of the capital programs while maintaining positive enplanement and cashflow trends resulting in lower leverage and increased financial flexibility.

Negative:
Enplanement Declines - Losses in total enplanements that signify a change in American's total support at DFW (15% - 25% reduction from current levels).
Negative: Borrowing Beyond the Current Plan - Significant additional borrowing beyond the airport's current plan.

CREDIT UPDATE
Fitch views DFW as an airport with an important role in the national aviation system and a favorable geographic location to support its standing as a Midwestern transportation hub. Fiscal 2014 operating data indicated positive trends in enplanements (31.4 million), up 4.2 % over the prior year, supported by growth in both domestic and international passengers. Connecting passengers remain the dominant component of traffic, representing 57% of total passengers.

For the first six months of fiscal 2015, the airport has seen a moderation of growth to about 1%, primarily due to some competitive effects from the Wright Amendment expiration from nearby Dallas Love Field. The elimination of flight restrictions at nearby city of Dallas' Love Field airport in late 2014 creates a more competitive dynamic between the two regional airports, particularly for air services at major domestic markets. Love Field has physical limitations for growth and would not be introducing international service and therefore would continue to act as complementary airport in the greater DFW air trade service area.

American Airlines, including American Eagle and its recently merged US Airways, account for an 85% market share of traffic. Even through the recent bankruptcy period followed by the merger with US Airways, American has demonstrated a strong commitment to the Dallas-Ft Worth market and is expected to remain a vital hub for its global network. DFW is the largest hub operation in the combined American - US Airways network, with nearly 900 daily departures and is supported by a favorable, high average passenger yield. The current rating level assumes the combined carrier will maintain a comparable level of operation at DFW.

Financial performance under the current airline agreement is healthy evidenced by stable debt service coverage levels and strong reserve balances. The ongoing capital programs, including the $2.7 billion TRIP, have resulted in a much higher leverage position in recent years. Still, the program is expected to enhance non-airline revenues while airline costs should be competitive with many of the hubs operated by other major network carriers.

The multi-year TRIP plan, which calls for an estimated $2.7 billion of expenditures at four existing terminals built in the 1970s, has seen some increases over the past two years. The financial plan anticipates much of the funding will come from existing and future borrowings. Additional capital needs separate from TRIP are at a similar spending level although the funding will be more balanced with debt, grants and airport funds. The rising debt levels resulting from borrowings issued mainly in 2013 and 2014 will result in rising cost and leverage metrics. DFW's debt is expected to peak at $7.5 billion by the end of the decade.

Fitch's base case assumes 1.5% average enplanement growth through 2020, a lower growth rate as compared to the airport's most recent forecast financial plan. Operating revenues are expected to grow at 6.7% driven by airline revenue growth of 8.9% while operating expenses are forecasted to grow at 4% annually through 2020, much of which is above historical levels. Under this scenario, the cost per enplanement (CPE) is likely to reach the $11-$12 range from the $7.53 level in fiscal 2014. Similarly, net debt to cashflow is now very high, even for a major airport, at 16x, but will evolve to 10x or less over the next several years under both the airport's financial plan and Fitch's base case forecast. Under this base case, debt service coverage levels are expected to remain stable near 1.5x (including the use of rollover coverage funds).

Fitch's rating case assumes a weaker -0.6% average enplanement growth through 2020, taking into account a modest 3% loss in 2016 with recovery in future years. Operating revenues are expected to grow at 7% driven by airline revenue growth of 10.4% while operating expenses are forecasted to grow at 4.5% annually through 2020. Under this scenario, the cost per enplanement (CPE) is likely to reach nearly $14 and net debt to cashflow will still evolve downward to approximately 10x or less over the next several years slightly /moderately higher than Fitch's base case forecast. Under Fitch's rating case, debt service coverage levels are expected to range between 1.45 and 1.55x.

In Fitch's view, the overall financial flexibility including the airline cost and debt service coverage stability will depend on both maintenance of current traffic performance as well as steady and timely growth in airline and non-airline revenues. In particular, revenue growth in terminal concessions and commercial development activities will be instrumental to preserving the airport's financial profile. Fitch recognizes that the TRIP enhancements have the potential to increase concession revenue from new and reconfigured concession spaces, to increase parking revenue from expanded and improved parking garages, and to reduce operating expenses through energy and maintenance cost savings.

SECURITY

The bonds are secured by a senior pledge of the airport's net revenues.

Contact:

Primary Analyst
Seth Lehman
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10033

Secondary Analyst
Jeff Lack
Director
+1-312-368-3171

Committee Chairperson
Chad Lewis
Senior Director
+1-212-908-0886

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Airports (pub. 13 Dec 2013) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725296&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ0OTAyMDgsInNlc3Npb25LZXkiOiJURkwyR0lRVFNFQUtYV0pPSEU4M0NVSjhQTF
Rating Criteria for Infrastructure and Project Finance (pub. 12 Jul 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ0OTAyMDgsInNlc3Npb25LZXkiOiJURkwyR0lRVFNFQUtYV0pPSEU4M0NVSjhQTF

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=990637&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ0OTAyMDgsInNlc3Npb25LZXkiOiJURkwyR0lRVFNFQUtYV0pPSEU4M0NVSjhQTF
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=990637)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)