FitchRatings

Fitch Affirms Dallas-Fort Worth Airport, TX's Joint Rev Bonds at 'A'; Outlook Stable

Fitch Ratings-New York-13 September 2017: Fitch Ratings has affirmed the 'A' rating on approximately $6.15 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.

DFW also issued approximately $280 million in parity joint improvement revenue bonds series 2016 sold in a private placement in September 2016. These debt obligations are not rated by Fitch.

KEY RATING DRIVERS

Summary: The rating reflects the strong demand for global air travel in an expanding market, the strategic location of Dallas-Ft Worth to serve as a hub, low overall volatility in passenger traffic, competitive airline costs for a major hub, and stable coverage metrics. The high degree of single carrier exposure, ongoing large capital programs to modernize airport infrastructure, and high borrowing levels constrain the rating. Operating characteristics and leverage metrics anchored by a strong revenue risk profile are comparable to other large-hub 'A' category airports. To the extent there is more clarity on DFW's longer-term capital commitments and plans of finance, providing more visibility on overall leverage and costs, a higher rating could be warranted.

Sizable Traffic Base With Concentration (Revenue: Volume Risk -Stronger, Revised from Midrange): The revised volume assessment reflects the positive developments from both an economic perspective within the DFW service area as well as the airport's steady expansion of passengers and operations which collectively more than compensate for elevated carrier concentration and connecting exposures. DFW is the primary airport serving the Dallas-Fort Worth metroplex benefitting from expanding demand for air service with a current base of 32.8 million total enplanements, of which 13.6

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, with both components are showing expansion. DFW is primarily served by American Airlines (85% of enplanements); however, American's (Issuer Default Rating: BB+/Rating Outlook Stable) presence has been notably stable and overall traffic has not been adversely impacted in recent years by either the U.S. Airways merger or Wright Amendment expiration at nearby Love Field airport.

Strong Rate Setting Mechanism (Revenue Price Risk - Stronger): 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 $8.75. However, they are projected to steadily increase to over $12 within the next three years as airport capital spending is funded, even under conditions of modest traffic growth.

Large Capital Plan; Additional Borrowings (Infrastructure Renewal and Development - Midrange): DFW is nearly complete with its nearly $2 billion terminal renewal and improvement program (TRIP) and is transitioning to a recently developed but still preliminary $3.4 billion 10-year capital plan focusing on airfield and other infrastructure redevelopment. Funding for this program includes future borrowings for 40% of the total program costs. Over the longer term, DFW may still need additional investments at a significant level for its terminal facilities in order to sustain its strong position as modern hub facility.

Conservative Debt Structure (Debt Structure - Stronger): All of DFW's debt is issued in fixed rate mode with generally conservative debt amortization. Bond covenants and reserves are viewed as standard for a large hub airport. With TRIP related borrowings complete, the aggregate general airport debt is projected to remain in the $6.0 to $6.5 billion range through 2020 and approximately 30% to 50% of future debt service is expected to be paid from passenger facility charges (PFC).

Financial Metrics: Debt service coverage and liquidity metrics have been stable in recent years and should remain healthy for the next several years under the current airline agreement and favorable traffic performance. In fiscal 2016 (ended Sept. 30), debt coverage was 1.46x combined (including the use of rollover coverage funds) supplemented with a strong level of 714 days cash on hand. Airport leverage of nearly 12x is high even for a large hub airport but this metric should evolve to 10x or lower over the next three to five years taking into consideration the principal amortization of existing debt and future borrowings to fund the capital program.

PEER GROUP

DFW's peers include other major hub airports with similar market and elevated leverage characteristics (approximately 12x to 13x), such as Chicago O'Hare (A/Stable Outlook) and Miami (A/Stable Outlook). DFW has similar coverage levels to Miami (averaging about 1.5x) but stronger liquidity metrics and lower airline costs. Miami's future capital needs is expected to be lower in scale relative to both DFW and Chicago and therefore airline costs will not be facing upward pressures over the next decade.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Increases to capital spending and borrowings that result in leverage metrics remaining over 12x on a sustained basis;
--Material losses or increased volatility in aviation activity, considering the particular exposure to the operations of American Airlines;
--Changes to airline rate-setting that weaken overall cost recovery mechanisms.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--Expansion of the traffic base and carrier mix diversification;
--Development of longer term capital commitments and financing plans that

indicate continued cost flexibility and leverage metrics that can still evolve to or near 8x range.

CREDIT UPDATE

Performance 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 transportation hub in the south central U.S. Fiscal 2016 operating data indicated positive trends in enplanements (32.8 million), up 1.2 % over the prior year, supported by growth in both domestic and international passengers. Connecting passengers remain the dominant component of traffic, representing nearly 59% of total passengers.

For the first 10 months of fiscal 2017, the airport has realized a modest growth of 0.7% and overall performance trends in recent years demonstrates the limited competitive effects from the 2014 Wright Amendment expiration from nearby Dallas Love Field. Love Field has physical limitations for growth and focuses on domestic operations and therefore would continue to act as complementary airport in the greater DFW air trade service area.

American Airlines currently accounts for an 85% market share of traffic. American continues to demonstrate a strong commitment to the Dallas-Ft Worth market and is expected to remain a vital hub for its global network. DFW is American's largest hub operation, with over 900 daily departures and has historically been 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.

DFW is nearly complete with its multi-year TRIP plan with a updated overall cost of approximately $1.9 billion at three existing terminals built in the 1970s. The airport's Terminal C facility is no longer part of the TRIP budget and DFW will likely need to make additional investments at its terminals for years to come to maintain its status as a modern hub facility. A newly developed 10-year capital program, sized at $3.4 billion, is moving ahead to cover airfield projects and other general airport infrastructure needs. Debt borrowings are expected to cover 40% of program costs; however, total airport debt levels should remain at or near the $6.3 billion total as annual debt amortization on outstanding obligations should be comparable to future borrowings.

Financial performance under the current airline agreement is healthy evidenced by stable debt service coverage levels, competitive airline costs, and strong reserve balances. Debt service coverage (including rolling coverage accounts) has averaged about 1.5x over the past several fiscal years. Airline costs has begun to increase to $9.50 level in fiscal 2016, and will likely exceed $11 for fiscal 2017, but remains competitive for a large-hub international gateway airport. Airport fund balances are robust at $815 million of unrestricted cash, translating to a very strong 714 days cash on hand. Still, leverage of nearly 12x is high given the debt borrowings since 2010.

Fitch Cases
Fitch's base case assumes 1.5% average enplanement growth through 2021, a similar growth rate from recent years. Total revenues are expected to grow at 3.7% driven by airline revenue growth of 5% while operating expenses are forecasted to grow at 3.5% annually through the forecast period. Under this scenario, the cost per enplanement (CPE) is likely to reach the $12-$13 range from the $9.50 level in fiscal 2016. Similarly, net debt to cashflow is now very high, even for a major airport, at 11.9x, but will evolve to about 8.1x over the next several years. Under this base case, debt service coverage levels are expected to remain stable in the 1.4x to 1.5x range (including the use of rollover coverage funds).

Fitch's rating case assumes a weaker -1.5% average enplanement growth through 2021, taking into account an approximately 8% aggregate loss in 2018, assuming reductions in O&D and connecting passengers, followed by modest recovery in future years. Operating revenues are expected to grow at 3.5% driven by airline revenue growth of 6.3% while operating expenses are forecasted to grow at 4.0% annually through 2021. Under this scenario, the CPE is likely to reach $15 and net debt to cashflow will still evolve downward to approximately 8.4x which is moderately higher than Fitch's base case forecast. Under Fitch's rating case, debt service coverage levels are expected to average 1.45x.

SECURITY

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

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Applicable Criteria
Rating Criteria for Airports (pub. 14 Dec 2016)
(https://www.fitchratings.com/site/re/891804)
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)
(https://www.fitchratings.com/site/re/902689)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form

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